NOVEMBER 2024 PROFESSIONAL EXAMINATIONS
CORPORATE REPORTING (PAPER 3.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

EXAMINER'S GENERAL COMMENTS

Standard of the Paper

The November 2024 diet being the first exam diet in the new ICAG syllabus was generally more challenging than the previous diets. The questions were based on the syllabus albeit some were not straight forward as candidates will usually expect. The mark allocation followed the weightings in the syllabus and was fairly allocated to each sub-question. 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 better than the previous diet. 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. This time, almost all candidates attempted the paper. This could be as a result of the new ICAG policy which allowed candidates to sit for their preferred number of papers at the final level. This obviously will change the pass rate as compared to previous diets where candidates registered for all outstanding papers at the final level.

QUESTION ONE

The following financial statements relate to Okaekwei PLC (Okaekwei), Ablekuma PLC (Ablekuma) and Katamanso PLC (Katamanso), three companies operating in the manufacturing industry.

Statement of Financial Position as at 31 October, 2024

	Okaekwei	Ablekuma	Katamanso
	GH¢000	GH¢000	GH¢000
Non-current assets:			
Property, plant and equipment	88,307	53,657	82,875
Investments	102,500	78,095	-
	190,807	**131,752**	**82,875**
Current assets:			
Inventory	9,492	4,618	14,642
Trade receivables	4,573	8,101	18,085
Cash and Bank	11,625	4,599	30,056
	25,690	**17,318**	**62,783**
Total assets	**216,497**	**149,070**	**145,658**
Equity & liabilities:			
Share capital @ GH¢1	106,250	63,750	61,625
Retained earnings	38,607	42,361	27,025
Other component of equity	3,825	3,060	2,678
	148,682	**109,171**	**91,328**
Liabilities:			
Non-current liabilities	40,851	20,327	31,582
Current liabilities	26,964	19,572	22,748
	67,815	**39,899**	**54,330**
Total equity and liabilities	**216,497**	**149,070**	**145,658**

Additional information:

i) On 1 November 2023, Ablekuma acquired 60% of the ordinary shares of Katamanso at a cost of GH¢55 million. To ensure value-for-money was achieved in this acquisition, due diligence exercise costing GH¢0.25million was undertaken by Ablekuma and Ablekuma has therefore recorded total cost of this acquisition at GH¢55.25 million in its investment in the above statement of financial position. Retained earnings and other components of equity of Katamanso on this date were GH¢21.6 million and GH¢1.65 million respectively.

ii) A fair value exercise was carried out on the assets and liabilities of Katamanso at the date of acquisition. The fair values of the net assets of Katamanso were equal to their carrying values, except one of the buildings whose fair value exceeded the carrying value by GH¢1.2 million. The remaining useful life of this building at the date of acquisition was 20 years. Katamanso's financial statements are yet to reflect the effect of this fair value exercise. Non-controlling interest in Katamanso is measured at proportionate share of identifiable net assets.

iii) On 1 November 2022, Okaekwei purchased 80% of the ordinary shares of Ablekuma at the cost of GH¢92 million. Okaekwei measures this investment at fair value through profit or loss, and therefore the investment value stated on the above statement of financial position represents the fair value of this investment at 31 October 2024. At the date of acquisition, the carrying values of the net assets of Ablekuma approximated their fair values. Retained earnings and other components of equity of Ablekuma on this date were GH¢29.6 million and GH¢2.32 million respectively. Non-controlling interest in Ablekuma is measured at proportionate share of identifiable net assets.

iv) The group provides for deferred tax on temporary differences arising on fair value adjustments on the net assets of subsidiaries at the acquisition date. For this purpose, the relevant tax rate is 25%.

v) On 1 June 2024, Ablekuma sold goods costing GH¢2 million to Katamanso for a consideration of GH¢1.8 million. The fair value of the goods at the date of sales was the consideration received, but at 31 October 2024, the fair value had reduced to GH¢1.78 million. At 31 October 2024, all of these goods were yet to be sold by Katamanso, and are carried in Katamanso's statement of financial position at that date at their purchase cost.

vi) To boost production capacity of Ablekuma, on 1 August 2024, Okaekwei transferred one of its production machineries in good condition to Ablekuma. The transfer value of the asset was GH¢2 million, but had carrying value of GH¢2.4 million at the date of transfer. The remaining useful life of this asset at the date of transfer was five years. Even though Okaekwei has not revised the useful life of this asset (or similar production machinery), Ablekuma depreciates the asset using four-year useful life. Okaekwei harmonises accounting policies (and estimates) of subsidiaries and its policies upon consolidation.

Required:
Prepare a Consolidated Statement of Financial position of Okaekwei PLC as at 31 October 2024 *(All workings are to be rounded to the nearest thousand).*

(Total: 20 marks)

QUESTION TWO

a) On 1 January 2023, Fabin Ghana Airlines PLC (FGA) leased a new fuel-efficient aircraft from German Jets Builders PLC (GJB) for ten (10) years, with an option to extend the initial period for five (5) more years. At the inception of the lease however, FGA determined that the economic incentives underpinning the renewal option did not lend support for the extension of the lease. The decision to lease this new aircraft formed part of FGA's resolve to green its air operations. Lease payments are fixed at €6 million, payable at each year end starting on 31 December 2023, plus a 5% additional annual payment if at reporting date FGA's annual aircraft noise footprints and nitrogen oxide emissions have decreased by at least 15% and 10% respectively. The aircraft is estimated to have a total residual value of €15 million on 31 December 2032 and €10 million on 31 December 2037. FGA has guaranteed that the relevant residual value will not reduce below 30%. Initial direct costs amounted to GH¢500,000.

At 31 December 2023, the Sustainability Committee determined that FGA's annual noise level and nitrogen oxide emissions had both declined by 15%. Management stuck to their position that the five-year extension will not be taken up. All due payments were fully settled. The applicable discount rate is 12%.

Required:
In line with ***IFRS 16 Leases*** and ***IAS 21 Effects of Changes in Foreign Exchange Rates***, recommend how the above scenario would have been dealt with in the financial statements of FGA for the year ended 31 December 2023.

Discount factors based on 12%			***Exchange rates***	
Year	Single-period factor	Annuity factor	Date	Rate
10	0.32	5.65	1 January 2023	€1:GH¢10
14	0.20	6.63	31 December 2023	€1:GH¢12
15	0.18	6.81	Average rate	€1:GH¢11

(10 marks)

b) Agropah PLC (Agropah) prepares its financial statements to 30 June and usually authorises the financial statements for issue on 25 August. On 15 July 2024, Agropah received notice of a legal claim made by Odametey, a customer, for loss of profits allegedly due to the supply of faulty goods by Agropah to Odametey on 30 April 2024. The amount claimed by Odametey was GH¢5 million.
The directors of Agropah have estimated the following outcomes in respect of this legal claim:

- A 28% chance the claim will not succeed.
- A 45% chance the claim will succeed and Odametey will be awarded damages of GH¢3.2 million.
- A 27% chance the claim will succeed and Odametey will be awarded damages of GH¢5 million.

Required:
In line with ***IAS 37: Provisions, Contingent Liabilities & Contingent Assets***, explain how this transaction should be accounted for and reported in the financial statements of Agropah for the year ended 30 June 2024. **(5 marks)**

c) Oboisah PLC (Oboisah) operates a defined benefit pension plan for employees who commenced employment with the company prior to 1 April 2021. The pension scheme is non-contributory.

At 31 March 2023, the Group recorded a net defined liability of GH¢157 million. The following information relates to the year ended 31 March 2024:

	GH¢ million
Employer contributions paid on 31 March 2024	43
Benefits paid	16
Current service cost	42
Curtailment gain	3
Present value of defined benefit obligation at 31 March 2024	498
Value of plan assets at 31 March 2024	315

The average yield on relevant corporate bonds was 20% on 1 April 2023. Entries so far made in respect of the employer contributions have been to incorrectly debit accounts receivables and credit cash. Benefits paid have been correctly recorded.

Required:
In line with ***IAS 19: Employee Benefits****,* determine how much pension amounts should be included in the financial statements of Oboisah for the year ended 31 March 2024. Show the appropriate extracts for the above and any correction entries, if necessary. **(5 marks)**

(Total: 20 marks)

QUESTION THREE

a) Pee Manka PLC (PM), a hyper-growing firm in Ghana, prepares its financial statements on 31 December.

The following information is relevant:

i) The financial statements are authorised for issue on 31 March. On 31 December 2021, PM issued share options to seven (7) of its senior executives, giving each executive the option to purchase 2 million shares at GH¢6.50 per share. The fair value of each option at that date was GH¢4.00. The exercise of the share options was conditional on the completion of two-years' service from 31 December 2021.
The company's share price on subsequent dates was as follows:
31 December 2022 GH¢13.50
31 December 2023 GH¢17.50
On 31 March 2023, after the 2022 financial statements were authorised for issue, PM's Chief Finance Officer, one of the seven executives, unexpectedly resigned from her

position in the company. On 30 April 2023 another executive, Mrs. Torsah, was dismissed. The five remaining executives exercised their options on 31 December 2023.

Required:

In line with ***IFRS 2: Share-Based Payment***, recommend how the above scenario would have been dealt with in the financial statements of PM for the year ended 31 December 2023. **(6 marks)**

ii) Mrs. Torsah who was dismissed, immediately instigated legal proceedings against PM, and it was probable, on the 28 February 2024, that she would be deemed to have completed the two-year qualifying period of her share option agreement. Legal advice at that time was that she was also likely to be awarded GH¢3.5 million in compensation, and that it was possible that this could rise to GH¢5.8 million.

Required:

In line with ***IFRS 2: Share-Based Payment*** and ***IAS 37: Provisions, Contingent Liabilities and Contingent Assets***, explain how the above scenario would impact your results in (i) above. **(4 marks)**

b) In the contemporary business landscape, the integration of digital technologies presents multifaceted challenges for accounting professionals, particularly in the areas of digital transformation, cybersecurity, regulatory compliance and ethical decision-making.

You are the newly appointed Chief Finance Officer (CFO) of Fanofom Ghana Ltd (FGL), a prominent Ghanaian company that produces and exports shea butter for the cosmetics industry to several companies globally. As FGL largely deals with international customers, it is undergoing a digital transformation to enable it to operate 24/7, and thus meet the needs of its clients given the time differences around the world. As a result, the company has recently migrated its accounting systems to a cloud-based accounting platform and implemented automation tools to streamline financial processes. However, one of the old and senior directors who described himself as a BBC, a street jargon meaning "*born before computer*" has expressed serious concerns about the digital transition and associated problems such as cybersecurity risks, regulatory compliance, and ethical issues that would arise due to the ongoing digital transformation.

Required:

i) Identify and explain the challenges associated with integration of digital technologies in accounting systems with respect to:

- Digital transition,
- Cybersecurity risks,
- Regulatory compliance
- Ethical dilemmas to alleviate the fears of this old and senior director. **(8 marks)**

ii) To alleviate the fears of this old and senior Director, recommend **TWO** remedies to address the identified challenges. **(2 marks)**

(Total: 20 marks)

QUESTION FOUR

a) Mensimah LTD (Mensimah) has been experiencing poor trading conditions over the last three years. As a result, it has been difficult to generate revenues and profits in the current year leading to very high inventory levels. Also, Mensimah has defaulted in paying interest due to the loan note holders for two years. Even though the debentures are secured against the land & buildings, the loan note holders have demanded either a scheme of reconstruction or the liquidation of Mensimah.
As the above trading difficulties have significantly threatened the going concern status of Mensimah, the directors as well as representatives of the shareholders and loan holders in a meeting decided to design the following scheme of reconstruction.

i) The assets were independently valued and should now be recognised at the following amounts:

	GH¢
Land	64,000
Building	64,000
Plant & Equipment	24,000
Inventory	40,000

The value of Mensimah's investment in **Adams LTD** has increased to GH¢48,000 and was to be sold as part of the reconstruction scheme. As for the trade receivables, it was determined that 10% of the stated value is non-recoverable and therefore would be written off.

ii) Each GH¢1 equity share is to be redesignated as an equity share of GH¢0.25. After this, the equity shareholders would be persuaded to accept a reduction in the nominal value of their shares from GH¢1 to GH¢0.25 per share and subscribe for a new issue based on *one-for-one* at a price of GH¢0.30 per share.

iii) The existing 5% loan notes is to be exchanged for a new issue of GH¢28,000 9.5% loan notes, repayable in 2028, plus 112,000 equity shares of GH¢0.25 each. In addition, they will subscribe for GH¢7,200 loan notes, repayable in 2028, at par value at the rate of 9.5%.

The 8% loan notes holders who have not received any interest for the past two years, are to receive 16,000 equity shares of GH¢0.25 each in lieu of the interest payable. It is agreed that the value of the interest liability is equivalent to the fair value of the shares to be issued. Moreover, the 8% loan notes holders have agreed to defer repayment of their loan until 2028, on condition that they are paid a higher interest rate of 9.5%.

iv) The deficit on retained earnings is to be written off and the bank overdraft is to be repaid immediately.

Mensimah's statement of financial position as at 31 December 2023 is as follows:

	GH¢	GH¢
Non-current assets		
Land & buildings	154,597	
Plant & equipment	48,603	

Investment in **Adams LTD**	21,600	224,800
Current assets		
Inventory	96,198	
Receivables	56,554	152,752
Total assets		**377,552**
Equity		
Equity shares (GH¢1)	160,000	
Retained earnings	(31,857)	
		128,143
Non-current liabilities		
8% loan notes	64,000	
5% loan notes	56,000	120,000
Current liabilities		
Trade payables	89,798	
Interest payable	10,240	
Overdraft	29,371	129,409
Total equity & liabilities		**377,552**

Required:

i) Prepare the capital reduction account for Mensimah LTD. **(4 marks)**

ii) Prepare the statement of Financial Position of Mensimah LTD immediately after the reconstruction. **(8 marks)**

iii) Determine the position of each stakeholder group if the reconstruction scheme is not implemented. **(3 marks)**

b) A parent company has a year end of 31 December 2023. One of its subsidiaries has a year end of 30 June 2023 and another has a year end of 30 September 2023.

Required:

What figures should the parent include in its consolidated financial statements in respect of these subsidiaries? **(5 marks)**

(Total: 20 marks)

QUESTION FIVE

a) Nsawkaw PLC (NK), a gold processing and trading company, has been identified by Djaraye Private Equity Fund (DPEF) as target for long-term equity investment. As financial consultant of DPEF, you have been tasked to evaluate the integrated financial condition of NK and make an investment recommendation.
Below are the summarised versions of NK's Consolidated Financial Statements for the year ended June 30, 2024 (together with its comparative period):

Summarised Consolidated Statement of Profit or Loss for the year ended 30 June 2024

	2024	2023
	GH¢000	**GH¢000**
Revenue	2,538,000	2,125,000
Operational expenses	(1,909,100)	(1,592,900)
Interest costs	(186,700)	(157,250)
Taxation	(234,000)	(198,500)
Profit after tax	**208,200**	**176,350**
Other comprehensive income:		
Gain on PPE revaluation	17,900	10,550
Total comprehensive income	**226,100**	**186,900**

Summarised Consolidated Statement of Changes in Equity for the year ended 30 June 2024

	Equity holders of the parent GH¢000	Non-controlling interests' equity GH¢000	Total equity GH¢000
2024			
Balances b/d	457,200	65,600	522,800
Total comprehensive income	190,800	35,300	226,100
Dividends	(110,000)	(8,700)	(118,700)
Balances c/d	**538,000**	**92,200**	**630,200**
2023			
Balances b/d	355,000	46,650	401,650
Total comprehensive income	160,500	26,400	186,900
Dividends	(58,300)	(7,450)	(65,750)
Balances c/d	**457,200**	**65,600**	**522,800**

Summarised Statement of Financial Position as at 30 June 2024

	2024 GH¢000	2023 GH¢000
Non-current assets		
Property, plant, and equipment	718,000	657,000
Others	156,000	99,000
	874,000	**756,000**
Current assets		
Trade receivables	140,000	121,000
Others	236,500	123,050
	376,500	**244,050**
Total assets	**1,250,500**	**1,000,050**
Total equity and liability	**1,250,500**	**1,000,050**

Additional information:

i) The total number of equity shares outstanding was 1.2 million and 1.4 million at 30 June 2023 and 30 June 2024 respectively.

ii) Other comprehensive income attributable to non-controlling interests for the years ended 30 June 2023 and 2024 amounted to GH¢8.05 million and GH¢9.6 million respectively.

iii) Non-current liabilities at 30 June 2023 and 30 June 2024 amounted to GH¢250,800 and GH¢308,510 respectively.

iv) The following metrics have been gleaned from NK's published sustainability reports across the two years:

Metric	2024	2023
Scope 1 & 2 carbon emissions (tonnes of CO_2)	650	780
Scope 3 carbon emissions (tonnes of CO_2)	2,400	2380
Women in senior management	21%	16%
Total recordable injury frequency rate (TRIFR) per 100 full-time workers	3.3	4.1

The scope and definitions of the above sustainability measures have remained materially unchanged across the two years.

Required:

Compute the following ratios for the years ended 2024 & 2023

i) Operating profit margin
ii) Return on parent's equity
iii) Earnings per share
iv) Current ratio
v) Trade receivables days
vi) Total liabilities to total assets % **(6 marks)**

b) Write a report to the directors of DPEF to evaluate the inter-period financial performance and position of NK using the above six (6) ratios. The report should draw attention to how the non-financial metrics combine with the financial counterparts to showcase the prospects and viability of NK. **(9 marks)**

c) The concept of double materiality is relevant to sustainability impacts and dependencies. It incorporates financial materiality and impact materiality.

Required:
Distinguish between ***financial materiality*** and ***impact materiality***. **(5 marks)**

(Total: 20 marks)

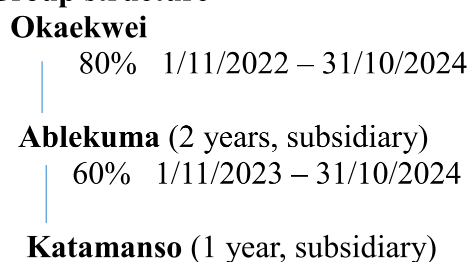
SOLUTION

QUESTION ONE

Okaekwei Group
Consolidated statement of financial position as at 31 October 2024

	GH¢000	GH¢000
Property, plant and equipment (88,307+53,657+82,875+1,200-60+400+5)		226,384
Investments (102,500+78,095-55,250-102,500		22,845
Goodwill (W3) (15,464+2,828)		18,292
		267,521
Current assets:		
Inventory (9,492+4,618+14,642-20)	28,732	
Trade receivables (4,573+8,101+18,085)	30,759	
Cash and Bank (11,625+4,599+30,056)	46,280	105,771
Total assets		**373,292**
Equity:		
Stated capital		106,250
Retained earnings (W5)		41,093
Other component of equity(W6)		4,910
Non-controlling interests (W4) (10,785+47,925)		58,710
		210,963
Non-current liabilities (40,851+20,327+31,582+285)		93,045
Current liabilities (26,964+19,572+22,748)		69,284
		373,292

W1. Group structure



Summary of percentages

	Ablekuma	**Katamanso**
Okaekwei (Parent) %: Direct Indirect	80% - **80%**	- 48% (60% x 80%) **48%**
NCI / Outside Interest %	20%	52% (100% – 48%)
	100%	**100%**

Workings 2-Net assets schedule

Net assets schedule- Ablekuma (Main subsidiary)

	At Acquisition	**At reporting**	**Post-acquisition**
	GH¢000	**GH¢000**	**GH¢000**
Stated capital	63,750	63,750	-
Retained earnings	29,600	42,361	12,761
Other component of equity	2,320	3,060	740
Due diligence cost	-	(250)	(250)
Depreciation-production machines		5	5
	95,670	**108,926**	**13,256**

Net assets schedule- Katamanso (Sub-subsidiary)

	At Acquisition	**At reporting**	**Post-acquisition**
	GH¢000	**GH¢000**	**GH¢000**
Stated capital	61,625	61,625	-
Retained earnings	21,600	27,025	5,425
Other component of equity	1,650	2,678	1,028
Fair value adjustment	1,200	1,200	-
Depreciation-Building			-
(1,200/20 x 1 year)	-	(60)	(60)
Deferred tax liability [1,200@25%/1,140@25%]	(300)	(285)	15
Impairment-Inventory	-	(20)	(20)
	85,775	**92,163**	**6,388**

Workings 3- Goodwill

Goodwill in Ablekuma- Main subsidiary

	GH¢000
Purchase consideration	92,000
NCI at acquisition (95,670x20%)	19,134
	111,134
Net assets at acquisition	(95,670)
Goodwill at acquisition/reporting	**15,464**

Or

	GH¢000
Purchase consideration	92,000
Parent's % of Net Assets acquired (95,670x80%)	(76,536)
Goodwill at acquisition/reporting	**15,464**

Goodwill in Katamanso- Sub-subsidiary

	GH¢000
Purchase consideration (55,250 – 250)	55,000
Indirect holding adjustment (55,000x20%)	(11000)
NCI at acquisition (85,775x52%)	44,603
	88,603
Fair value of net assets at acquisition (W2)	(85,775)
Goodwill at acquisition/reporting	**2,828**

Or

	GH¢000
Purchase consideration (55,250 – 250)	55,000
Indirect holding adjustment (55,000x20%)	(11,000)
	44,000
Parent's % of net assets at acquired (48% x 85,775)	(41,172)
Goodwill at acquisition/reporting	**2,828**

Workings 4-Non-controlling interest

Non-controlling interest in Ablekuma

	GH¢000
NCI at acquisition date	19,134
Share of post-acquisition profit (13,256 x 20%)	2,651
Indirect holding adjustment	(11,000)
	10,785

Or

NCI at reporting date (20% x 108,926)	21,785
Indirect holding adjustment	(11,000)
	10,785

Non-controlling interest in Katamanso

	GH¢000
NCI at acquisition date	44,603
Share of post-acquisition profit (6,388 x 52%)	3,322
	47,925

Or

	GH¢000
NCI at reporting date (52% 92,163)	**47,925**

Workings 5- Retained earnings

	GH¢000
Parent- Okaekwei	
Per SOFP	38,607
Fair value profit reversed (102,500 - 92,000)	(10,500)
Sale of production machines-loss	400
	28,507
Main sub- Ablekuma	
share of profit (13,256-740) x 80%	10,013
Sub-sub- Katamanso	
Share of profit (6,388-1,028) x 48%	2,573
	41,093

Workings 6- Other component of equity

	GH¢000
Okaekwei-per SOFP	3825
Share in Ablekuma (740 x 80%)	592
Share in Katamanso (1028 x 48%)	493
	4,910

Workings 7

The sales from Ablekuma to Katamanso at a loss is a sign of impairment of the inventory at the date of sales as the sales was made at fair value. Hence, there is no adjustment for the effect of this loss in the consolidated financial statements even though the sale is to a group member and the buyer (Katamanso) is yet to sell the goods to outsiders. However, the further reduction in the value of this inventory at the year-end is to be recognized as further impairment loss in the books of the buyer who has the inventory now (i.e. Katamanso).

Debit Retained earnings (Katamanso) [1.80m – 1.78m]	GH¢0.02m	
Credit Inventory		GH¢0.02m

Workings 8

The transfer of production machinery by Okaekwei to Ablekuma at a loss does not signify any impairment loss as the asset is in good condition (as indicated). This loss is therefore unrealized, and hence the asset is restated at its historical cost. Also, the associated depreciation is also adjusted as a result of the loss adjustment. In addition, there is the need to harmonise accounting policy and any estimates on depreciation of production machines. The 4-year useful life depreciation of Ablekuma is adjusted to reflect 5-year useful life depreciation of Okaekwei.

Loss adjustment:

Debit Property, plant and equipment (2.4m – 2m)	GH¢0.4m	
Credit Retained earnings- Okaekwei		GH¢0.4m

Depreciation adjustment:

		GH¢m	
Original depreciation = GH¢2.4m/5 years	=0.48 x 3/12	0.120	
New depreciation- Ablekuma = GH¢2/4 x 3/12		0.125	
			0.005

Debit Property, plant and equipment	GH¢0.005m	
Credit Retained earnings- Katamanso		GH¢0.005m

(20 marks, distributed evenly through 100 ticks at 0.20 mark per tick)

EXAMINER'S COMMENTS

This question was the favourite of most candidates; a popular question and most candidates obtained the pass mark. The question was very straight forward. Few candidates could not identify the nature of the group structure. The question required candidates to prepare a consolidated statement of financial position and tested candidates on a vertical group with no change in group structure. The question was generally okay, and candidates showed appreciable understanding of it. However, the following issues were still identified with some candidates who answered the question:

- Some candidates struggled to identify that an absolute majority shareholding of the main (direct) subsidiary in the indirect (sub)-subsidiary is what determines control by the main subsidiary, and consequently control by the ultimate parent. Candidates were using the effective control/shareholding as a measure of control, and hence classifying the indirect subsidiary incorrectly as an associate investment instead of a subsidiary.
- The computation of consolidated equity balances (stated capital, retained earnings, other component of equity and non-controlling interest) is still a challenge to some candidates. This is so because these candidates seem to lack understanding on the meaning and composition of these equity items.
- Other areas of weakness were the calculation of the goodwill in the sub-subsidiary, adjustment for impairment and depreciation, and the adjustment of the cost of a due diligence exercise prior to the acquisition of the sub-subsidiary.
- Though not many, some candidates lack understanding on "full consolidation", the method used in accounting for subsidiary investments, which requires that assets and liabilities of subsidiaries are added in full (i.e. 100%) and not at proportionate amounts (i.e. parent's share).

QUESTION TWO

a) Fabin Ghana Airlines Plc should account for the lease by recognizing right-of-use asset and a corresponding lease liability.
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 minimum lease payments discounted using the lease's incremental borrowing rate of 12%. The lease liability is subsequently increased by the finance charge, reduced by the unavoidable lease payments, and adjusted for remeasurements that arise from changes in discount rate, revision in estimated payments, and changes in foreign exchange rates.

The variable lease payments, given their dependence on sustainability performance, would not be included in the unavoidable lease payments. Rather, these payments should be treated as executory costs and expensed as and when the pre-specified condition is met.

In line with IAS 21, the foreign currency-denominated lease liability, a monetary item, should be initially translated using commencement date spot rate, and later on retranslated using the spot exchange at the end of each reporting period. Any changes to the lease payable due to exchange rate changes are recognised in profit or loss.

Because the related right-of-use asset is a non-monetary asset measured at historical cost, it should be translated using spot exchange rate as of the commencement date and is usually not affected by subsequent changes in the exchange rate as in the case of this lease. However, if the asset is carried at fair value, it should be translated at the exchange rate in effect at the remeasurement date.

Workings

Lease liability
Lease liability, given by the present value of future lease payments (as at the initial date), is provided below:
= **(**€6 million x 5.65) + **(**€30% x 15 million x 0.32)
= 33.9 million + 1.44 million
= €35.34 million

Lease table for subsequent measurement of lease payable in €:

Year	Bal. at start €000	Interest (12%) €000	Lease payments €000	Bal. at end €000
2023	35,340	4,241	(6,000)	33,581
2024	33,581	4,030	(6,000)	31,611

Translation and retranslation of lease liability:

	GH¢m
Amount @ 1 April 2023 (35,340 x 10)	353,400
Interest (4,241 x 11)	46,651

Payment (6,000 x 12)	(72,000)
	328,051
Exchange loss	74,921
Amount @ 31 March 2024 (33,581 x 12)	402,972

Right-of-use asset:

	GH¢000
Initial cost @ 1 April 2023 (353,400 + 500)	353,900
Less: Depreciation (353,900/10)	(35,390)
Carrying amount @ 31 March 2024	318,510

Fabin Ghana Airlines PLC
Statements of profit or loss (extract) for the years ended 31 March 2024

	GH¢000
Finance cost	(46,651)
Depreciation	(35,390)
Exchange loss	(74,921)
Additional lease payment (5% x 6,000 x 11)	(3,300)

Fabin Ghana Airlines PLC
Statements of financial position (extract) as at 31 March 2024

	GH¢m
Non-current assets:	
Right-of-use asset	318,510
Non-current liabilities:	
Lease liability (31,611 x 12)	379,332
Current liabilities	
Lease liability (402,972 – 379,332)	23,640

(Any 3 valid points for explanations for 3 marks; 40 ticks @ 0.175 for 7 marks for the computations and extracts)

b) The case should be dealt with in line with IAS 37 *Provisions, Contingent Liabilities, and Contingent* Assets, IAS 10 *Events after Reporting Period*

IAS 37 requires an entity to make provision for future payment if and only if the entity has a present obligation arising from a past obligating event that is highly probable to result in outflow of an amount which can be reliably measured.

In the case of this court case against Agropah PLC (Agropah), there is 72% (45% + 27%) probability that Agropah would lose the case. Hence, a provision should be set up provided a reliable measurement could be made.

This is despite the fact that the claim notice was received after the end of the current period. In line with **IAS 10**, the receipt of the legal claim notice is an adjusting event as this event provides evidence to a condition (supply of faulty goods) that existed by the reporting date.

The amount of provision required should reflect the best estimate of the future payment.

Such estimate may be evidenced through the entity's own past experience or an expert's opinion (an example is lawyer's advice).

Where a single obligation is being measured as in the case of this court case, the best estimate will be the most likely outcome. Hence, provision should be made for GH¢3.2 million; debited to statement and credited to provision as liability.

(Any 5 valid points for 5 marks)

c)

Correction of posting error

Dr Pension obligation	43	
Cr Accounts receivable		43
Being correction of wrongful entry of contributions paid		

Calculation of net pension obligation at end and net remeasurement component

	GH¢m
Net pension obligation b/d	157
Interest income (20% x 157)	31.4
Current service cost	42
Contributions	(43)
Curtailment gain	(3)
	184.4
Net re-measurement gain	(1.4)
Net pension obligation c/d (598 – 315)	183

Oboisah Plc
Statement of profit or loss (extract) for the year ended 31 March 2024

	GH¢m
Profit or loss	
Current service cost	(42)
Curtailment gain	3
Interest income/(expense)	(31.4)
Other comprehensive income	
Net remeasurement gain	1.4

Oboisah Plc
Statement of financial position (extract) as at 31 March 2024

	GH¢m
Equity:	
Cumulative remeasurement component	1.4
Non-current liabilities:	
Pension obligation	183

(20 ticks @ 0.25 each for 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question on selected accounting standards (IFRS) was a difficult question for most candidates although the selected standards were very popular. The question was in three parts. Part A focused on IFRS 16 Leases and IAS 21 Effects of Changes in Foreign Exchange Rates. Part B was on IAS 37 Provisions, Contingent Liabilities & Contingent Assets, as well as IAS 10 Events after Reporting Period. Part C examined IAS 19: Employee Benefits. Candidates' understanding of the standards and their application to real situations were a bit weak and therefore found it difficult in solving questions. Most of the candidates performed poorly in the "Lease question". They could not calculate lease liability and right-of-use assets. Those who were able to calculate the lease liability and right-of-use asset did not translate the values correctly into functional currency which is the Ghana Cedis. The Part B and Part C of the question were better answered compared to the Part A. Most candidates answered the Part C of the question which was on IAS 19 and scored the maximum marks available. Few students could not state the recognition criteria for IAS 37 and could not apply the criteria to the question as required by the examiner.

Overall, performance was low and below expectations. It seems candidates were unfamiliar with these standards. Over 90% of the candidates scored below ten marks out of the twenty marks allocated to this question. Majority of the candidates wrote theories instead of showing calculations and relevant entries with reference to the standards. Overall, question two was partly answered. Some candidates did not attempt this question at all. ICAG should emphasise revision on standards to enhance better appreciation by students.

QUESTION THREE

a) The scenario requires application of IFRS 2 *Share-based Payments*
IFRS 2 requires any instrument which increases the rights to an entity's equity shares to result in an increase in a component of equity. When the payment for goods or services does not represent an asset, IFRS 2 requires the offsetting entry to be expensed.

Pee Manka PLC (PM) issued share options on 31 December 2021 to its senior executives, with the exercise of the options conditional on the completion of two years' service from that date. The issue of these options is considered to relate to the services the employees will provide over the vesting period. Therefore, the fair value of the share-based payment, determined at the grant date, should be expensed over the two years commencing on 1 January 2022.

Each of the options issued to the seven executives of PM has a fair value of GH¢4 at 31 December 2021, the date of grant of the options. On the basis that no executive leaves, the total of the fair value of share options granted equals:
2 million x 7 x GH¢4 = GH¢56 million

i) **Accounting for the share-based payment in the second year within the vesting period**
In accordance with IFRS 2, the share-based payment should be accounted for as at 31 December 2023 as follows:

The share option reserve at 31 December 2023 and share-based remuneration expense within in 2022 and 2023:

	GH¢ million
Equity @ 31 December 2022 (2 million x 7 x GH¢4 x ½)	28
Remuneration expense (40 – 28) – 2023	
Equity @ 31 December 2023	12
(2 million x 5 x GH¢4)	40

Note:
At 31 December 2022, it was not apparently clear that any of the executives would be leaving.

	GH¢ million	GH¢ million
Dr Remuneration expense – P/L	12	
Cr Share option reserves – SFP		12

Exercise of options
Five executives exercised their options on 31 December 2023 and they each paid a total of 13 million (2 million x GH¢6.50) for their shares. This should be recorded by PM as follows:

	GH¢ million	GH¢ million
Dr Cash/Bank	65	
(2 million x GH¢6.5 x 5)	40	
Dr Share option reserves		
Cr Stated capital		65
Cr Retained earnings		40

ii) The dismissal of Mrs. Torsah which has legal implications with the outcome undetermined will impact the accounting treatments in (i) above, as follows:

The share option reserve at 31 December 2023 and share-based remuneration expense within in 2022 and 2023 will become:

	GH¢ million
Equity @ 31 December 2022	
(2 million x 7 x GH¢4 x ½)	28
Remuneration expense (48 – 28) – 2023	
Equity @ 31 December 2023	20
(2 million x 6 x GH¢4)	48

	GH¢ million	GH¢ million
Dr Remuneration expense – P/L	20	
Cr Share option reserves – SFP		20

	GH¢ million	GH¢ million
Dr Cash/Bank	65	
(2 million x GH¢6.5 x 5)	40	
Dr Share option reserves (48 x 5/6)		
Cr Stated capital		65
Cr Retained earnings		40

In respect of the remaining executive, a balance of GH¢8 million (GH¢48 million divided by six executives who qualified) will be held in reserves pending a decision on the exercise rights of Mrs. Torsah, the executive dismissed by PM.

Implications of the Legal suit against dismissal

Mrs. Torsah, who was dismissed in April 2023, immediately instigated legal proceedings against the company. In March 2024, when the financial statements were authorised for issue, it was likely that she would be awarded GH¢3.5 million in compensation. It was also possible that she would be awarded an additional GH¢2.3 million (GH¢5.8 million less GH¢3.5 million),

As there was a present obligation at 31 December 2023, resulting from a past event, a provision of GH¢3.5 million should be recognized in the financial statements. There was also a contingent liability of GH¢2.3 million, which should be disclosed by way of note.

The following journal entry is required in respect of the financial statements of PM for the year ended 31 December 2023:

	GH¢ million	GH¢ million
Dr. Compensation expense – P/L	3.5	
Cr. Provision for compensation – SFP		3.5
Being provision for compensation		

Pee Manka PLC
Statements of profit or loss (extract) for the years ended 30 November 2023

	GH¢ million
Remuneration expense	(20)
Compensation expense	(3.5)

Pee Manka PLC
Statements of financial position (extract) as at 30 November 2023

	GH¢ million
Equity	
Share option reserves	8
Current liabilities	
Provision for compensation expense	3.5

(Any five valid points under the explanations for 5 marks; 20 ticks @ 0.25 each for the computations for 5 marks)

b)

i) In the contemporary business landscape, the integration of digital technologies presents multifaceted challenges for accounting professionals, particularly in the areas of digital transition, cybersecurity, regulatory compliance, and ethical decision-making. I briefly explain each of these challenges below:

- **Digital Transition:**
  The migration to cloud-based accounting systems and the adoption of automation tools offers numerous benefits, including increased efficiency and scalability. However, this transition necessitates upskilling the workforce to leverage advanced software effectively. Moreover, the reliance on digital platforms introduces new risks related to data integrity, privacy, and system reliability. To address these challenges, the company should invest in comprehensive training programs to empower employees with the necessary skills to navigate the digital environment securely.

- **Cybersecurity Risks:**
  The proliferation of cyber threats, such as phishing attacks and ransomware, poses a significant risk to the confidentiality, availability, and integrity of financial data. Therefore, the company must implement robust cybersecurity measures, including encryption protocols, multi-factor authentication, and regular security audits, to safeguard sensitive information. Moreover, employee awareness programs should be conducted to educate staff about potential cyber threats and promote a culture of cybersecurity awareness throughout the organization.

- **Regulatory Compliance:**
  As a multinational company, compliance with international financial reporting standards (IFRS) and local regulatory requirements is paramount. The evolving nature of digital transactions and the emergence of new business models, such as cryptocurrency transactions, add complexity to financial reporting and taxation. To ensure compliance, the company should establish a dedicated regulatory compliance team tasked with monitoring regulatory changes, conducting risk assessments, and liaising with regulatory authorities to address emerging issues promptly.

- **Ethical Dilemmas:**
  In the era of big data analytics and artificial intelligence (AI), ethical considerations surrounding data privacy, algorithmic bias, and professional integrity come to the forefront. Accountants must navigate ethical grey areas, such as the responsible use of data and algorithms in decision-making processes, to uphold the profession's ethical standards and public trust. To mitigate ethical risks, the company should implement ethical guidelines and codes of conduct, provide ethical decision-making training to employees, and establish mechanisms for reporting ethical concerns without fear of retaliation.

(8 marks)

ii) **Recommendations:**

- Invest in comprehensive training programs to upskill employees on digital tools and cybersecurity best practices.
- Implement robust cybersecurity measures, including encryption protocols and employee awareness programs, to mitigate cyber threats.

- Establish a dedicated regulatory compliance team to monitor regulatory changes and ensure adherence to international financial reporting standards.
- Promote a culture of ethical decision-making by implementing ethical guidelines, providing training, and establishing mechanisms for reporting ethical concerns.

  In conclusion, the contemporary accounting challenges posed by digital transformation; cybersecurity risks, regulatory compliance, and ethical dilemmas require proactive measures to mitigate risks and ensure compliance while upholding professional ethics. By addressing these challenges effectively, Fanofom Ghana Ltd can navigate the complexities of the digital age and maintain trust and confidence in its financial reporting practices.

(Any 2 relevant points for 2 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question was in two parts. The first part focused on IFRS 2: Share-Based Payment. The second part was on challenges associated with the integration of digital technologies in the areas of digital transformation, cybersecurity, regulatory compliance and ethical decision-making. About 80% of the candidates did not answer the first part of the question. Candidates who attempted it scored very low marks. Most candidates failed to use the fair value at grant date for equity-settled share-based payment, reflecting lack of appreciation of the two types of share-based payments. Most candidates attempted the second part of the question and had a pass mark in this part. However, some candidates did not explain the challenges associated with integration of digital technologies in accounting systems with respect to the factors or areas given in the question.

QUESTION FOUR

a)

i) **Mensimah LTD**

Statement of Financial Position as at 31 December 2023 (after reconstruction)

	GH¢	GH¢
ASSETS		
Non-current assets		
Land & buildings (64,000 + 64,000)	128,000	
Plant & Equipment	24,000	152,000
Current assets		
Inventory	40,000	
Receivables (56,554 – 5,655)	50,899	
Bank (**W2**)	73,829	164,728
TOTAL ASSETS		**316,728**
EQUITY & LIABILITIES		
Equity shares (**W3**)	120,000	
Capital reserve (**W1**)	7,730	127,730
Non-current liabilities		
9.5% Loan stock (**W4**)		99,200
Current liabilities		
Trade payables		89,798
TOTAL EQUITY & LIABILITIES		**316,728**

(8 marks)

Workings:

ii) ***(W1) Reconstruction account***

	GH¢	GH¢
Carrying values written off:		
Land & buildings	154,597	
Plant & Equipment	48,603	
Investment in Adams Ltd	21,600	
Inventory	96,198	
Receivables	56,554	
Retained earnings	31,857	
Loan interest	4,000	
Revised valuations:		
Land & buildings		128,000
Plant & Equipment		24,000
Investment in Adams Ltd		48,000
Inventory		40,000
Receivables (*56,554*90%)*		50,899
Share capital reduced		120,000
Loan interest		10,240
Capital reserve (*bal fig*)	7,730	
	421,139	**421,139**

(4 marks)

Capital Reduction Account				
	GH¢			**GH¢**
Land & buildings (154,597-128,000)	26,597		Investment in Adams Ltd (21,600-48,000)	26,400
Plant & Equipment (48,603-24,000)	24,603		Stated capital	120,000
Inventory (96,198-40,000)	56,198		Loan interest (10,240-4,000)	6,240
Receivables (56,554-[90%x56,554])	5,655			
Retained earnings	31,857			
Balance c/f (Capital reserve)	7,730			
	152,640			**152,640**

(W2) Bank account

	GH¢
Overdraft	(29,371)
New equity shares issue (*160,000*GH¢0.30)*	48,000
New loan stock issue *GH¢*7,200 at par value	7,200
Sale of investment – **Adams Ltd**	48,000
	73,829

(W3) Shareholdings

	Equity shares		Capital Reduction
	Number	**GH¢**	**GH¢**
Redesignated existing shares (*GH¢0.25 each*)	160,000	40,000	
New issue (*160,000*GH¢0.3 each*)	160,000	48,000	
Part-exchange of 5% debenture	112,000	28,000	
Debenture interest (*10,240 – 4,000*) ***	16,000	4,000	6,240
	448,000	**120,000**	**6,240**

****8% debenture interest on GH¢64,000 p.a. for 2 years = GH¢10,240 – 4,000 (16,000 × GH¢0.25) = GH¢6,240 written off to capital reduction account.*

Stated Capital Account				
Capital reduction	120,000		Balance b/f	160,000
Balance c/f	120,000		New issue	48,000
			Debenture exchange	28,000
			Debenture interest (10,240 – 6,240)	4,000
	240,000			**240,000**

(W4) 9.5% loan stock

	GH¢
8% debenture converted to 9.5% loan stock	64,000
New 9.5% loan stock	7,200
New 9.5% loan stock – part conversion of 5% debenture	28,000
	99,200

The position of each stakeholder group if the reconstruction scheme is not implemented is as follows:

	GH¢	GH¢

Land and buildings	128,000	
Plant and equipment	24,000	
Investment in Adams Ltd	48,000	
Inventory	40,000	
Receivables	50,899	
Assets available for distribution		**290,899**
Distributed as follows:		
Secured liabilities:		
8% debenture	64,000	
5% debenture	56,000	(120,000)
		170,899
Current liabilities:		
Overdraft	29,370	
Interest	10,240	
Trade payables	89,798	(129,408)
Available to equity holders		**41,491**

(3 marks)

b)

A parent company and its subsidiaries may have non-conterminous year-ends.

For the purposes of consolidation, IFRS 10 states that where the reporting date for a parent is different from a subsidiary, the subsidiary should prepare additional financial information, as of the same date of the parent unless it is impracticable to do so.

If it is impracticable to do so, IFRS 10 allows the use of the subsidiary's financial statements prepared up to a date of not more than three months earlier or later than the parent entity's reporting date, with due adjustment for significant transactions or other events between the dates.

In the given scenario, the subsidiary with the 30 June 2023 year-end should prepare additional financial statements covering the year ended 31 December 2023 (that is coinciding with that of its parent). It cannot prepare additional financial statements to, say, 30 November, despite this date being within three months of the parent's year end. Under no circumstances (unless the subsidiary is immaterial) can the parent consolidate the subsidiary's own separate financial statements because the subsidiary's year end is more than three months before that of the parent.

With respect to the subsidiary with 30 September 2023 year-end, the parent should consolidate additional financial statements prepared by the subsidiary for the year ended 31 December 2023, but if it is not practicable, it can consolidate the subsidiary's financial statements for the year ended 30 September 2023 (because it ends no more than three months prior to the parent's year-end). If the subsidiary's financial statements for 30 September 2023 are used, consideration should be given to the requirement to adjust for material transactions between the subsidiary's year end and that of the parent.

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The first part of the question was a straightforward one which required demonstration of an understanding of capital reduction. Either one uses the gross approach or the net approach. Most of the candidates used the alternate method (net approach) of the capital reduction account. The question was well attempted by almost all candidates. The performance was not too bad. Some candidates however could not differentiate between the positive/negative impact of the maximum loss changes. Also, some of the candidates used the scheme of reconstruction data given in the question for the financial position instead of using revised/reviewed financial figures. Most candidates could not determine expected balances such as bank balance, stated capital, loan stock and equity shares.

The second part of the question relating to what figures a parent entity should include in its consolidated financial statements when the reporting dates of the parent entity and that of its subsidiaries are different. Some candidates could not explain the effects of the different reporting periods relating to consolidation.

QUESTION FIVE

a)

Report

To:	Directors
From:	Financial consultant
Date:	1 July 2024
Subject:	Evaluation of the performance (including nonfinancial) and position of Nsawkaw PLC

Introduction

This report provides an assessment of financial and sustainability performance and financial position of Nsawkaw PLC (NK) for the year ended 30 June 2024, relative to its comparative year. The analysis covers profitability, working capital management, financial/capital structure, and sustainability. The report should be read along with the attached appendix.

Profitability

The profitability section relates to analysis of how well the entity's resources are deployed to generate sales in a cost effective and efficient manner. Two financial metrics: operating profit margin and return on parent's equity are used to gauge NK's profitability. NK's results for 2024 delivered 24.78% operating profit margin, compared to the little over 25% made in 2023. This drop, however small it might look, stands at odds with the entity's revenue which went up by about 19% [100 x (2,538,000-2,125,000)/2,125,000]. The indication this contradiction provides is that the depressed margins reflect weakened control over operational costs. Stated differently, the recorded increase in costs of running the entity's operations could not be matched by the revenue uplift. This same pattern is revealed by the returns on owners' equity. Despite the return on equity of nearly 33% seen in 2024 looking decent by almost every measuring rod, the minor reduction over what was earned the year before it is a reflection that the lower margins negatively impacted how much profit was made for the equity holders. A quick analysis of the numbers shows that the growth (80,800/457,200 x 100 = 17.67%) in equity funds marginally trailed the increase in the profit figure (24,500/153,000 x 100 = 16.01%). Overall, NK's profitability has been a little less impressive this year than last year.

Management of working capital

Working capital management is concerned with how well the entity's short-term assets are managed, including how ready the entity is to meet its short-term obligations. NK's working capital management has been analysed using receivables days and current ratio. Receivables period provides a clue about how efficient an entity manages its debts with credit customers. The receivable days ratios show that NK needed 20 days in 2024 and a day short of the time length used in 2023 to collect its debts. This suggests NK saw a marginal improvement in its debtor management. The picture painted here is not any different from the one depicted by the current ratio. The current ratio, which is a key gauge of a firm's liquidity, rose from 1.08 in 2024 to 1.21 in 2023. The increase implies that there has been improvement in how well NK can use its current assets to meet its current liabilities even if the 1.21 still falls below an ideal ratio of 2. On the whole, NK seems to have handled its short-term resource management better in the current period.

Financial structure
This section has all to do with how an entity mixes internal and external capital to finance its assets and operations. In this regard, one ratio – total liabilities to total assets % – is used here. NK has seen a nearly two percentage points increase in its total liabilities to total assets %. Whereas NK financed its assets with about 48% contribution from creditors and by extension outsiders in 2023, the company did so nearly 50% this year. This somewhat slight increment in how much reliance NK puts on external financiers indicates a rise in financial leverage and risk as there is less flexibility in handling liabilities than equity.

Earnings per share
Earnings per share represents a key investment ratio which defines how much profit is earned on each one ordinary share. It provides input into the derivation of a widely used market-based metric – price-earnings ratio. NK generated an earnings per share of 12.75p in 2024 as against 12.68p in 2023. The decline here falls in line with the pattern of the various profit measures which have all experienced some kind of drops. This however looks interesting given the increase in the number of issued ordinary shares. This apparent contradiction seems to owe its explanation to the slightly swifter rise in the denominator compared to the increase in the profit available to equity holders. Unless the market judges this drop in the per share earnings as temporary and not unexpected, the market may price-discount NK's shares.

Sustainability
The discussion here focuses on how the entity has fared on its social and environmental commitments. With the ever-increasing interests by many stakeholders including customers, lenders, and regulators in profiling firms' sustainability and how it manages social and environmental risks, it is just right that in examining the viability of NK for the intended investment in its equity a good insight into its sustainability footprints is obtained. The combined NK's carbon footprints have seen a decline from 3,160 (780+2,380) tonnes of carbon dioxide emitted in 2023 to 3,050 (650+2400) tonnes of emissions in 2024. This reduction occurred despite the slight increase in Scope 3 (the indirect) carbon emissions. Though the decline in emission levels might not be that much in absolute terms, the change would certainly be deemed significant if the reduction were related to the level of its activities (such as sales which have increased noticeably over the two years). Similarly, NK's social asset appears to have been enhanced over the two years as the proportion of female executives is up to the current 21% from the 2023's 16%, along with drop (increment) in the work-related injury rate (employee safety footprint). Putting all together, the improvement in the non-financial performance revealed through the two metrics clearly suggests that NK is probably prioritizing long-term and sustainable performance over short-term profit and financial performance.

Conclusion
Overall, NK has demonstrated nothing but a mixed performance over the last two years. The company has not been impressive in terms of profitability as it has experienced decline across all profit measures including earnings per share. There has been a marginal increase in the extent to which assets are financed by external funders. However, NK has managed its working capital better and seen an improvement in liquidity over last year. Much more importantly, NK seems to place premium on sustainability issues and given the widespread interest in such gestures, the entity looks set to be in the good books of a range of stakeholders. This long-term focus of NK revealed through its improving sustainability

measures should probably put NK out as a good candidate for the intended equity investment by DPEF.

SIGNED

Appendix

	Formula	2024	2023
(i) Operating profit margin	*PBIT x 100* *Revenue*	2,538,000 – 1,909,100 x 100 2,538,000 =24.78%	2,125,000 – 1,592,900 x 100 2,125,000 =25.04%
(ii) Return on parent's equity *(see note below)*	*Profit attributable to parent's equity x100* *Parent's equity*	182,500 x100 538,000 = 33.92%	158,000 x100 457,200 =34.56%
(iii) Current ratio *(see note below)*	*Current assets* *Current liabilities*	376,000 311,790 =1.21:1	244,050 226,450 = 1.08:1
(iv) Trade receivable days	*Trade receivables x365* *Revenue*	140,000 x 365 2,538,000 =20 days	121,000 x 365 2,125,000 =21 days
(v) Total liabilities to total assets % *(see note below)*	*Total liabilities x 100* *Total assets*	620,300 x 100 1,250,500 =49.6%	477,250 x 100 1,000,050 =47.72%
(vi) Earnings per share *(see note below)*	*Profit attributable to parent's equity* *Number of ordinary shares outstanding*	182,500 1.4m (or 1,400) =130.36p or GH¢130.36	158,000 1.2m (or 1,200) =131.67p or GH¢131.67

Notes:		**2024**	**2023**
Profit attributable to parent's equity-holders	Profit after tax – profit attributable to NCI	208,200 – (35,300 – 9,600) =182,500	176,350 – (26,400 – 8,050) =158,000
Total liabilities	Total equity and liability – total equity	1,250,500 – 630,200 = 620,300	1,000,050 – 522,800 = 477,250
Current liabilities	Total liabilities – Total non-current liabilities	620,300 – 308,510 =311,790	477,250 – 250,800 = 226,450

(6 marks for calculations; 5 marks for financial analysis and interpretation; 2 marks for nonfinancial analysis; 2 marks for introduction, conclusion and presentation)

c) **Double materiality**

The concept of double materiality is relevant to sustainability and relates to impacts and dependencies. It incorporates:

- Financial materiality: sustainability issues are material if they could have a significant economic impact on a company's business model and value.
- Impact materiality (or environmental and social materiality): sustainability issues are material if they could have a significant impact on society and the environment.

The concept of materiality helps to explain the difference between ESG and sustainability: ESG focuses on the impact of environmental, social and governance issues on an organisation's ability to create value; it does not consider an organisation's impact on society and the environment, nor does it consider social and environmental limits to the creation of value (known as the 'safe operating space' within which a company can sustainably operate). In other words, ESG is concerned with financial materiality rather than impact materiality, whereas sustainability considers both.

(5 marks)
(Total: 20 marks)

EXAMINER'S COMMENTS

Generally, questions on ratio analysis are mostly well attempted by most candidates. However, the nature of this question made it difficult for candidates to score the maximum marks from the ratio analysis. Most candidates had challenges in deconsolidating the data to enable them to compute the ratios satisfactorily. Obviously, blending ratio analysis question with ESG/Sustainability issues is novel and apt. One needs to work out certain figures such as current assets before computing current ratio and it made the question a bit challenging albeit a good one. Most candidates were unable to adjust for group share of profit for the year.

CONCLUSION

As indicated earlier, overall, candidates performed better than previous diet. The results provided some indication of ill preparation and lack of appreciation of accounting standards. The fact that almost all candidates attempted all the questions is a step in the right direction, resulting from the new ICAG policy which allowed students who sit for only a single paper. This obviously will change pass rate as compared to previous diets where students registered for all outstanding papers at the final level.