NOVEMBER 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 (IFRS). Finally, the syllabus covers the analysis and interpretation of information from financial reports.

On successful completion of this paper, candidates should be able to:

- Discuss and apply conceptual, regulatory and ethical framework for financial reporting;
- Describe the content of IFRSs applied in preparing financial statements;
- Prepare and present financial statements which conform with IFRSs;
- Account for business combinations in accordance with IFRSs; and
- Analyse and interpret financial statements.

STANDARD OF THE PAPER

This exam was the first since the launching of the 2024 -2029 examinations syllabus. The standard of the paper compares favourably with those of previous examinations. The syllabus coverage was good and the difficulty level was appropriate for the level of cognitive domain to be examined. The level of clarity of requirements of the respective questions was excellent. Allocation of marks was consistent with load and difficulty level of the respective questions and sub-questions.

Generally stated, a candidate who prepared well in accordance with the dictates of the syllabus, should be able to pass the examination.

PERFORMANCE OF CANDIDATES

On the whole, performance of candidates was satisfactory. The pass rate was about 39%.

It appears the few high performers were concentrated at some centres. While some script packs could record about 60% pass rate, others could hardly register 20% pass rate.

NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES

Almost all the candidates scored good marks in Question 4 'Accounting Ratios and Financial Statements Interpretation''. That question was a 'low hanging fruit' for all the candidates.

A greater number of the candidates demonstrated lack of understanding of how to apply the respective IFRS in the preparation of financial statements.

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

Complete syllabus coverage is a necessity. The weighting of the syllabus is as follows:

i)	Regulatory, Conceptual and Ethical Framework	10%
ii)	Content and Application of IFRSs	25%
iii)	Presentation of Financial Statements –Single Entity (based on IFRSs)	20%
iv)	Presentation of Consolidated Financial Statements (based on IFRSs)	25%

v) Accounting Ratios and Interpretation of Financial Statements 20%

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

Yarkpawolo LTD, a company in the healthcare industry, purchased 80% of the ordinary shares of Weah LTD on 1 January 2023. There are three elements to the purchase consideration: an immediate payment of GH¢1,400,000 and a two further payments of GH¢100,000 on 31 December 2023 and GH¢120,000 on 31 December 2024 if the return on capital employed (ROCE) exceeds 15% in each of the financial years. All indicators have suggested that the ROCE for the company will be 17% and 16% for the financial years ending 31 December 2023 and 31 December 2024 respectively.

Yarkpawolo uses a discount rate of 10% in any present value calculations. The present value of GH¢ 1 receivable based on 10% are as follows:

Year	Present value
1	0.909
2	0.826

The draft Financial Statements of both companies as at 31 December 2023 are as follows:

Statement of Profit or Loss for the year ended 31 December 2023

	Yarkpawolo GH¢000	Weah GH¢000
Sales revenue	14,000	5,000
Cost of sales	(10,000)	(4,000)
Gross profit	**4,000**	**1,000**
Operating expenses	(2,050)	(700)
Profit before tax	**1,950**	**300**
Income tax expense	(450)	(200)
Profit for the year	**1,500**	**100**
Retained earnings brought forward	**3,500**	**250**
Retained earnings to statement of financial position	**5,000**	**350**

Statement of Financial Position as at 31 December 2023

	Yarkpawolo GH¢000	Weah GH¢000
Non-current assets:		
Property, Plant & Equipment	4,500	400
Patents	500	100
Investment in Weah	1,400	-
	6,400	**500**
Current assets		
Inventories	5,500	200
Trade and other receivables	2,000	250
Cash and cash equivalents	1,200	550
	8,700	**1,000**
	15,100	**1,500**

Equity		
Share capital (GH¢0.20 per ordinary share)	1,500	500
General reserve	3,000	100
Retained earnings as at 31 December 2023	5,000	350
	9,500	**950**
Non-current liabilities		
Long-term borrowings	1,600	200
Current liabilities		
Trade and other payables	4,000	300
Current portion of long-term borrowings	-	50
	5,600	**550**
	15,100	**1,500**

The following information is relevant:

i) During the acquisition of Weah LTD, the Property, Plant and Equipment had following deatails:

	Book Values	Fair Values	Depreciation Rates(Straight-line Method)
Category	**GH¢000**	**GH¢000**	
Property	200	250	10%
Plant	80	100	20%
Equipment	120	80	20%
Total	**400**	**430**	

Weah has not adjusted the value of PPE as a result of the fair value exercise.

ii) Since acquisition, Weah purchased GH¢50,000 worth of goods from Yarkpawolo. Half of these goods remained in inventories at the year end. Yarkpawolo makes a mark-up on cost of 25% under the transfer pricing agreement between the two companies. Also, Yarkpawolo purchased GH¢50,000 of goods from Weah. On 31 December 2023, the inventories of Yarkpawolo contained one-third of the goods purchased from Weah. Weah sells at a margin of 20% under the transfer pricing agreement between the two companies.

iii) Included in trade and other receivables of Yarkpawolo are amounts owed by Weah of GH¢5,000. Presently, the current accounts do not balance due to a payment of GH¢2,000 being in transit at the year end from Weah.

iv) At year end, an impairment review was carried out on the consolidated goodwill arising on acquisition of Weah LTD and an impairment loss of GH¢100,000 was identified. No adjustment has been made to this in the accounts.

v) Yarkpawolo LTD's policy is to value the non-controlling interest at fair value at the date of acquisition. For this reason, the share price for Weah of GH¢0.75 is representative of the share value of the shares held by the non-controlling interest.

Required:

Prepare for Yarkpawolo LTD a Consolidated Statement of Profit or Loss for the year ended 31 December 2023 and Statement of Financial Position as at 31 December 2023.

(20 marks)

QUESTION TWO

a) Kamara LTD manufactures and sells health equipment and has a financial year end of March 2024. It offers a one-year guarantee for equipment that is supplied directly to clients. One of the company's clients is suing the business at the financial year end for failing to fix an equipment throughout the guarantee period. Because the customer disregarded the equipment's usage instructions, Kamara LTD feels that the issue is not covered by the guarantee.

Kamara LTD's lawyer has advised that it is more likely that the company will not be found liable. This would result in it incurring legal expenses amounting to approximately GH¢24,000.

The company also manufactures another line of equipment which it sells to wholesalers. The company sold 3,200 items of this equipment. The equipment has a one-year repair guarantee. Based on past experience, 10% of items sold are returned for repairs. In each case, 70% of the items returned are repaired at a cost of GH¢64 each, while the remaining 30% need significant repairs at a cost of GH¢200 each.

Required:
Determine the correct accounting treatment to deal with the above issues in the books of Kamara LTD for the year ended 31 March 2024. **(6 marks)**

b) As a Trainee Financial Accountant working for Mulba LTD, a technology business, you have been asked by the Financial Controller to provide guidance on how to account for a variety of transactions that took place after the company's fiscal year ended on December 31, 2023.

Mulba LTD was sued by a customer who was dissatisfied with the quality of product delivered to it in June 2023. The court case was heard in late October 2023 but it was not until 8 January 2024 that the judge ruled in favour of Mulba LTD and awarded it legal costs of GH¢20,000 to cover its solicitor's fees. The legal costs were paid by the customer to Mulba LTD on 12 January 2024.

Mulba LTD was doubtful of winning the case and it had previously made a provision in its financial statements for the year ended 31 December 2023 for compensation and legal costs as follows:

Dr Legal Fees – Administrative Expenses	GH¢25,000	
Dr Cost of Sales	GH¢35,000	
Cr Provisions – Current Liabilities		GH¢60,000

Required:
In accordance with ***IAS 10: Events after the Reporting Period,*** advise the management of Mulba LTD on the proper accounting treatment of the above issues so as to ensure that the financial statements are prepared in accordance with IFRS. **(4 marks)**

c) Dolo LTD, a market leader in the Pharmaceutical industry incurred the following expenditure during the financial year end December 2023.

	GH¢000
Licence to operate in the pharmaceutical industry for 10 years from January 2023	200
Costs incurred in setting up a website for a new product The website will be set up in 2024	20
Purchase of 295 personal computers on 1 July 2023 (three-year useful life). **Total cost:** 295 PCs (excluding operating system) Windows operating system for each unit (licence for 295 PCs) Microsoft Office software for each unit (licence for 295 PCs)	 840 530 24
Induction training for new staff	430

The company paid GH¢90,000 to acquire the rights to a popular series of novels from another entity a few years ago. Since the rights have an endless useful life, they were not amortized. The novels are still in high demand. As of December 31, 2023, an independent valuer valued them at GH¢240,000.

The company's policy is to use the revaluation model for its intangible assets where a market valuation is available and permitted.

Required:
Determine the carrying amount of intangible assets at the end of the year 31 December 2023 (insofar as the information permits). **(7 marks)**

d) Under ***IFRS 12: Disclosure of Interests in Other Entities,*** a structured entity is defined as one designed so that voting or similar rights are not the dominant factor in deciding who controls the entity.

Wesseh LTD is an entity set up by a sponsoring bank to hold specific mortgages, securitised by that bank. The operation of Wesseh LTD is governed by an operating agreement that sets out the managerial structure and rules of operation.

Required:
Justify whether the above would meet the definition of a ***structured entity***. **(3 marks)**

(Total: 20 marks)

QUESTION THREE

Fahnbulleh LTD (Fahnbulleh) is a well-known company manufacturing thrill rides. During the current economic climate, Fahnbulleh has experienced some difficulties and unfortunately has had to close down its Merry Go Round division.

The company's trial balance at 31 October 2023 is as follows:

	GH¢000	**GH¢000**
Revenue		1,296,000
Cost of sales	546,480	
Distribution costs	127,080	
Administrative expenses	142,560	
Investment income		28,080
Investment property	270,000	
Interest paid	17,280	
Income tax		10,800
Property, Plant & Equipment carrying value at 1 Nov. 2022	1,620,000	
Inventories – 31 October 2023	108,000	
Trade receivables	135,000	
Bank	64,800	
Payables		43,200
Deferred tax – 1 November 2022		75,600
8% Loan note		432,000
Ordinary share capital GH¢1		540,000
Retained earnings – 1 November 2022	-	605,520
	3,031,200	**3,031,200**

Additional Information

i) Revenue includes VAT of GH¢72 million.

ii) Included within Property, Plant and Equipment is a building with a carrying value of GH¢54 million. On 1 November 2022, it was revalued to GH¢72 million. The building had an estimated life of twenty-five years when it was purchased ten years prior to the revaluation date, this has not changed as a result of the revaluation. The directors of Fahnbulleh wish to incorporate this value in the financial statements for the year ended 31 October 2023. All other Property, Plant and Equipment are to be depreciated at 20% per annum on the reducing balance basis. All depreciation is to be charged to cost of sales.

iii) On 1 October 2023, Fahnbulleh closed down its Merry Go Round division. The results of the division from 1 November 2022 to the date of closure are included in the above trial balance as follows:

	GH¢000
Revenue	58,800
Cost of sales	38,700
Distribution costs	12,240
Administrative expenses	11,880

The net assets of the division were sold at a loss of GH¢19.2 million and are currently included within cost of sales.

iv) The investment property owned by Fahnbulleh has risen in value during the year by 5%. This rise is to be incorporated into the financial statements. Fahnbulleh uses the fair value model to value investment property in accordance with ***IAS 40: Investment Property***.

v) The provision for income tax for the year ended 31 October 2023 has been estimated at GH¢140.4 million. For the deferred tax provision, the only temporary differences are accelerated capital allowances. At 31 October, these were GH¢129.6 million. Income tax is charged at 25%.

vi) At the year-end 31 October 2023, inventory worth GH¢46 million was damaged. These could be reconditioned at a cost of GH¢12 million and sold for GH¢52 million.

Required:
Prepare and present a statement of comprehensive income for the year ended 31 October 2023 for Fahnbulleh LTD and a statement of financial position at that date.

(Total: 20 marks)

QUESTION FOUR

Dukuly LTD is a public entity that has expanded significantly in recent years by acquiring established businesses. The following financial statements for two potential acquisition targets, Suah LTD and Nagbe LTD, are provided. Both companies operate in the same industry, and Dukuly LTD believes that their shareholders would be receptive to a takeover. The indicative price for acquiring 100% of either entity is GH¢12 million.

Statements of Profit or Loss for the year ended 30 September, 2024

	Suah LTD	Nagbe LTD
	GH¢000	GH¢000
Revenue	25,000	40,000
Cost of Sales	(19,000)	(32,800)
Gross Profit	**6,000**	**7,200**
Distribution and Administrative Expenses	(1,250)	(2,300)
Finance Costs	(250)	(900)
Profit Before Tax	**4,500**	**4,000**
Income Tax Expense	(900)	(1,000)
Profit for the Year	**3,600**	**3,000**

Statements of Financial Position as at 30 September, 2024

	Suah LTD	Nagbe LTD
	GH¢000	GH¢000
Non-Current Assets		
Property	-	3,000
Owned Plant	4,800	2,000
Right-of-Use Asset	-	5,300
	4,800	**10,300**
Current Assets		
Inventory	1,600	3,400
Trade Receivables	2,100	5,100
Bank	1,100	200
	4,800	**8,700**
Total Assets	**9,600**	**19,000**
Equity and Liabilities		
Equity		
Equity Shares of GH¢1 Each	1,000	2,000
Property Revaluation Surplus	-	900
Retained Earnings	1,600	2,700
	2,600	**5,600**
Non-Current Liabilities		
Lease Liability	-	4,200
5% Loan Notes (31 December 2025)	5,000	-
10% Loan Notes (31 December 2025)	-	5,000
	5,000	**9,200**

Current Liabilities		
Trade Payables	1,250	2,100
Lease Liability	-	1,000
Taxation	750	1,100
	2,000	**4,200**
Total Equity and Liabilities	**9,600**	**19,000**

Additional Information:

i) **Carrying Amount of Plant:**

	Suah LTD (GH¢000)	**Nagbe LTD (GH¢000)**
Owned Plant – Cost	8,000	10,000
Less: Government Grant	(2,000)	-
Net Carrying Amount	**6,000**	**10,000**
Accumulated Depreciation	(1,200)	(8,000)
Carrying Amount after Depreciation	4,800	2,000
Carrying Amount of Leased Assets	Nil	8,000

ii) The following ratios have been calculated for Suah LTD:

Return on Capital Employed (ROCE):	62.5%
Net Asset Turnover:	3.3 times
Gross Profit Margin:	24.0%
Profit Margin (Before Interest and Tax):	19.0%
Current Ratio:	2.4:1
Closing Inventory Holding Period:	31 days
Trade Receivables Collection Period:	31 days
Trade Payables Payment Period:	24 days
Gearing (Debt / (Debt + Equity)):	65.80%
Acid Test Ratio:	1.6:1

Required:

a) Calculate the comparable ratios for Nagbe LTD.
(All lease liabilities are treated as debt). **(10 marks)**

b) Using the above information, assess the relative performance and financial position of Suah LTD and Nagbe LTD for the year ended 30 September 2024, in order to assist the directors of Dukuly LTD in making an acquisition decision. **(10 marks)**

(Total: 20 marks)

QUESTION FIVE

a) Harmonisation of accounting standards is a topical issue and is needed due to the increasing globalisation and competitiveness of governments and services. Harmonisation ensures reliable and high quality financial reporting. However, not all countries have been able to harmonise their accounting standards in line with the International Financial Reporting Standards.

Required:
State **FIVE** barriers to the harmonisation of accounting standards faced by these countries. **(5 marks)**

b) Dahn is a Chartered Accountant who works for a large Pharmaceutical Company, Nimely Company LTD (Nimely) as Assistant Financial Controller. The Financial Controller of Nimely is also a Chartered Accountant with more than ten years of experience. During the year Nimely yreceived a vehicle worth GH¢800,000 from the government to support its operations. According to the Government Official who presented the vehicle to the management of Nimely, the company has been compliant in filing and paying its taxes.

At year end, the Financial Controller passed the following entry in the Tally Software of Nimely Company LTD:

Dr Vehicle	800,000	
Cr Income		800,000

Dahn explained to the Financial Controller that the grant should be treated in line with the provisions of ***IAS 20: Accounting for Government Grants and Disclosure of Government Assistance.*** It is the company's policy that such grants should be treated as deferred income. The Financial Controller agreed that the treatment should have been in line with IAS 20 but mentioned that the entries should not be changed since the current treatment may help them meet their profit targets.

It is Nimely's policy to depreciate its vehicles at a rate of 25% per annum on a straight line basis.

Required:
i) Identify the ethical issues involved.
ii) Recommend the appropriate actions to be taken by Dahn. **(5 marks)**

c) The main sources of corporate governance guidance in Ghana are the Companies Act, 2019 (Act 992) and the Corporate Governance Code issued by the Securities and Exchange Commission (SEC) in 2020. SEC is one of the bodies that oversees the listed company regime in Ghana. The code is binding on all listed companies unless they are exempt from the compliance and the SEC is empowered to impose penalties for non-compliance.

Required:
Explain the requirements of the Corporate Governance Code issued by the Securities and Exchange Commission. **(5 marks)**

d) Togbah LTD (Togbah), a software developer, enters into a contract with a customer to transfer the following:

- Software licence,
- Installation service (includes changing the web screen for each user),
- Software updates, and
- Technical support for two years.

Togbah sells the above separately. The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

Required:
Explain whether the goods or services promised to the customer are distinct in terms of ***IFRS 15: Revenue from Contracts with Customers.*** **(5 marks)**

(Total: 20 marks)

SOLUTION

QUESTION ONE

YARKPAWOLO GROUP
CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31ST DECEMBER 2023

	Yarkpawolo Group
	GH¢ 000
Sales revenue (14,000+(5,000)-50 intra group sales -50 intra group sales	18,900.00
Cost of sales (10,000+4,000)+1 dep -50 intra group sales-50 intra group sales + 5 PUP + 3.33 PUP	(13,909.33)
Gross profit	**4,990.67**
Operating expenses (2,050+700)+100 goodwill impairment	(2,850.00)
Increase in continent consideration	(19.01)
Profit before tax	**2,121.66**
Income tax expense (450+200)	(650)
Profit for the year	**1,471.66**
Profit attributable to:	
Parent shareholders (balancing figure)	1,472.53
Non-controlling interest ((100-1 depreciation – 100 goodwill impairment-3.33 PUP)*20%	(0.87)
	1,471.66

YARKPAWOLO GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2023

	Yarkpawolo Group
	GH¢ 000
Non-current assets:	
PPE (4,500+400+30-1)	4,929
Patents (500+100)	600
Goodwill (w3)	985.02
Current assets	
Inventories (5,500+200-5-3.33)	5,691.67
Trade and other receivables (2,000+250-5)	2,245
Cash and cash equivalents (1,200+550+2 cash in transit)	1,752
	9,688.67
Total Assets	**16,202.69**
Equity	
Share capital (20 pesewas per ordinary shares)	1,500
General reserve	3,000
Retained Earnings (w5)	4,972.54
Equity attributable to Members of Parent	***9,472.54***
Non-Controlling interest (w6)	374.13
Total Equity	**9,846.67**
Non-current liabilities	
Long-term borrowings (1,600+200)	1,800
Current liabilities	
Contingent Consideration (w4) (190.02+19 unwound discount	209.02
Trade and other payables (4,000+300-3)	4,297
Current portion of long-term borrowings (50)	50
Equity and Liabilities	**16,202.69**

(20 marks)

Workings 1: Group Structure

Yarkpawolo

80% Control

20% NCI

Weah

Date of acquisition/control: 1st January 2023

Date of reporting: 31st December 2023

Workings 2: Net Assets Acquired

	@acquisition 1st Jan 2023	@reporting 31st December 2023	Post acquisition movements
	GH¢000	GH¢000	GH¢000
Share capital	500	500	
General reserve	100	100	
Retained earnings	250	350	100
Fair value adjustment(430-400)	30	30	
Depreciation adjustment (w7)		(1)	(1)
Patents			
PUP (20%/120%)*50*1/3		(3.33)	(3.33)
	880	**975.67**	**95.67**

Workings 3: Goodwill Computation – Fair Value Approach

	GH¢000
Cost of Investment:	
Cash Consideration	1,400
Contingent Consideration (W4)	190.02
Fair Value of NCI (0.75*500)	375
	1,965.02
Net assets acquired	(880)
Goodwill at acquisition	**1,085.02**
Impairment of goodwill	(100)
Goodwill at consolidation	**985.02**

Workings 4: Contingent Consideration

Amount (at reporting)	**Year**	**Discount rate (10%)**	
100	1	0.909	90.90
120	2	0.826	99.12
Contingent Consideration (b)			**190.02**

Workings 5: Consolidated Retained Earnings

	GH¢000
Yarkpawolo Ltd	
Balance at 31/12/2009	5,000
Unwound Discount on Deferred consideration (10% of 90.9)+(10% of 99.12)	(19.0)
PUP	(5)
Weah Ltd	
Group share of post-acquisition profits (80%of 95.67)	76.54

Impairment loss(80%*100)	(80)
	4,972.54

Workings 6: Non-controlling Interest

	GH¢000
Fair value of NCI at acquisition(w3)	375
NCI Share of post-acquisition profits (20% of 95.67)	19.13
Impairment loss (20% of 100)	(20)
	374.13

Workings 7: Depreciation on fair value adjustments

	Book Values	**Fair Values**	**Increase or (decrease) in fair value**	**Depreciation Rates (Straight-line Method)**	**Depreciation For a year**
Category	**GH¢'000**	**GH¢'000**	**GH¢'000**	**GH¢'000**	
Property	200	250	50	10%	5
Plant	80	100	20	20%	4
Equipment	120	80	(40)	20%	(8)
Total	**400**	**430**	**30**		**1**

Workings 8: Markup on Cost of 25% (Goods sold by Yarkpawolo to Weah)

	%	Workings (GH¢)	GH¢
Revenue	125	50,000 x 0.5	25,000
Cost	100		20,000
Profit	25		5,000

PUP is GH¢ 5,000.

EXAMINER'S COMMENTS

The question required candidates to prepare consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position (involving a parent and a subsidiary). This was a standard question that required basic calculations such as goodwill, intra-group adjustments, non-controlling interest and consolidated retained earnings.

Many candidates answered the question well and earned pass marks.

QUESTION TWO

a) The accounting treatment for the transactions for the year-ending 31 March 2024 are as follows:
At the end of the reporting period, Kamara Limited disputes liability (and therefore, whether a present obligation exists).

However, given that it is more likely than not that it will be found guilty, based on the lawyers advise, a present obligation is assumed to exist. Given that a single obligation is being measured, a provision is made for the outflow of the most likely outcome i.e. a provision is recognised for GH¢24,000.

A present obligation exists at the end of the reporting period based on historical evidence of items being repaired under the guarantee agreement.
Here, a large population of items is involved. A provision is therefore made for the expected value of the outflow:

3,200 x 10% x 70% x GH¢64	GH¢14,336
3,200 x 10% x 30% x GH¢200	GH¢19,200
	GH¢33,536

Dr. P/L	GH¢33,536	
Cr. Provision for repair cost		GH¢33,536

b) Per paragraph 9 (a) of IAS 10, this is an adjusting event. The event took place during the reporting period and the settlement after the reporting period of the court case confirms that there was a present obligation at the end of the reporting period.

Therefore, the previous provision should be reversed and the money received for legal fees should be netted against any legal costs that Mulbah Limited bore in defending the case in the financial statements for the year ended 31 December 2023.

c)

	GH¢
Licence (200 – (200/10 years))	180,000
Web site planning – expensed (SIC-32 para 9(a))	0
Computers – tangible assets (IAS 16)	0
Operating system – tangible assets (computers cannot operate without it – IAS 38 para 4)	0
Microsoft Office (24 – (24/3 x 6/12))	20,000
Training – expensed (IAS 38 para 69(c))	0
Book range (cannot be revalued as no active market)	90,000
	290,000

d) This scenario clearly meets the definition stated in the question, as control is determined by the operating agreement.

EXAMINER'S COMMENTS

Question 2 required candidates to demonstrate knowledge of contents and application of IAS 37, IAS 10, IAS 38 and IFRS 12. Many candidates could not provide the right responses.

QUESTION THREE

FAHNBULLEH LTD
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 OCTOBER 2023

Continuing operations:	**GH¢'000**
Revenue (W1)	1,165,200
Cost of sales (W2)	(812.580)
Gross profit	**352,620**
Distribution costs (W3)	(114,840)
Administrative expenses (W4)	(130,680)
Operating profit	**107,100**
Investment income (W5)	41,580
Finance costs (W6)	(34,560)
Profit before tax	**114,120**
Income tax expense (W7)	(86,400)
Profit for the year from continuing operations	**27,720**
Discontinued operation:	
Loss on discontinued operation (W10)	(23,220)
Total profit for the year	**4,500**
Other comprehensive income:	
Gain on property revaluation (W9)	18,000
Total comprehensive income for the year	**22,500**

FAHNBULLEH LIMITED
STATEMENT OF FINANCIAL POSITION AS AT 31 OCTOBER 2023

		GH¢'000
ASSETS		
Non-current assets:		
Property, plant and equipment (W11)		1,320,000
Investment property (W12)		283,500
		1,603,500
Current assets:		
Inventories (W13)	102,000	
Trade receivables	135,000	
Bank	64,800	
		301,800
Total Assets		**1,905,300**
EQUITY AND LIABILITIES		
Equity:		
Ordinary GH¢1 share capital		540,000
Revaluation surplus		18,000
Retained earnings		610,020
Total equity		1,168,020
Non-current liabilities:		
8% Loan note	432,000	
Deferred tax (W8)	32,400	
		464,400
Current liabilities:		
VAT Payable	72,000	
Trade Payables	43,200	
Income tax payable	140,400	

Interest payable (W14)	17,280	
		272,880
Total Equity and Liabilities		**1,905,300**

(20 marks)

WORKINGS (in GH¢'000)

1 Revenue

Per trial balance	1,296,000
VAT	(72,000)
Discontinued operation - Revenue	(58,800)
	1,165,200

2 Cost of sales

Per trial balance	546,480
Discontinued operation - Cost of sales	(38,700)
Depreciation:	
Building (72,000/15)	4,800
Other PPE ((1,620,000 - 54,000) x 20%)	313,200
Discontinued operation - Loss on disposal	(19,200)
Adjustment to damaged inventory	6,000
	812,580

3 Distribution costs

Per trial balance	127,080
Discontinued operation	(12,240)
	114,840

4 Administrative expenses

Per trial balance	142,560
Discontinued operation	(11,880)
	130,680

5 Investment income

Per trial balance	28,080
FV gain on investment property (270,000 x 5%)	13,500
	41,580

6 Finance costs

Interest paid per trial balance	17,280
Accrued interest ((8% x 432,000) - 17,280)	17,280
	34,560

7 Income tax expense

Estimated income tax for the year	140,400
Over provision of tax in previous year	(10,800)
Decrease in deferred tax	(43,200)
	86,400

8 Deferred tax

Balance b/f	75,600
Decrease in deferred tax	(43,200)
Balance c/d (129,600 x 25%)	**32,400**

9 Gain on property revaluation

Carrying amount of building	54,000
Revalued amount	72,000
Gain on revaluation	**18,000**

10 Discontinued operation

Revenue	58,800
Cost of sales	(38,700)
Gross profit	20,100
Distribution costs	(12,240)
Administrative expenses	(11,880)
	(4,020)
Loss on sale of net assets	(19,200)
Loss on discontinued operation	**(23,220)**

11 Property, plant and equipment Schedule

	Building	**Other PPE**	**Total**
VALUATION:	**GH¢'000**	**GH¢'000**	**GH¢'000**
At 1 November 2022	54,000	1,566,000	1,620,000
Valuation gain	18,000	-	18,000
At 31 October 2023	72,000	1,566,000	1,638,000
ACCUM. DEPRECIATION:			
At 1 November 2022	-	-	-
Charge for the year	4,800	313,200	318,000
At 31 October 2023	4,800	313,200	318,000
CARRYING AMOUNT:			
At 31 October 2022	54,000	1,566,000	1,620,000
At 31 October 2023	67,200	1,252,800	**1,320,000**

12	**Investment property**	
	Balance b/f	270,000
	Fair value gain (W5)	13,500
	Carrying amount	**283,500**
13	**Inventories**	
	Per trial balance	108,000
	Value of damaged inventory (46-52+12)	(6,000)
		102,000

EXAMINER'S COMMENTS

Question 3 required candidates to prepare statement of comprehensive income and statement of financial position.

It was a standard question and most of the candidates secured pass marks.

QUESTION FOUR

a) **Calculation of Missing Ratios for Nagbe Ltd**

Return on Capital Employed (ROCE):
ROCE = (Profit Before Interest and Tax / Capital Employed) × 100
Profit Before Interest and Tax (PBIT): GH¢4,000 + GH¢900 (Finance Costs) = **GH¢4,900 Capital Employed:** Total Equity + Non-Current Liabilities= 5,600+9,200=GH¢14,800
ROCE: (GH¢4,900 / GH¢14,800) × 100 = 33.11%

Net Asset Turnover:
Net Asset Turnover = Revenue / Net Assets
GH¢40,000 / GH¢5,600 = 7.14 times

Gross Profit Margin:
Gross Profit Margin = (Gross Profit / Revenue) × 100
(GH¢7,200 / GH¢40,000) × 100 = 18.0%
Profit Margin (Before Interest and Tax):
Profit Margin (PBIT) = (PBIT / Revenue) × 100
(GH¢4,900 / GH¢40,000) × 100 = 12.25%

Current Ratio:
Current Ratio = Current Assets / Current Liabilities
GH¢8,700 / GH¢4,200 = 2.07:1

Closing Inventory Holding Period:
Inventory Holding Period = (Closing Inventory / Cost of Sales) × 365
(GH¢3,400 / GH¢32,800) × 365 = 37.82 days

Trade Receivables Collection Period: Trade Receivables Collection Period = (Trade Receivables / Revenue) × 365= (GH¢5,100 / GH¢40,000) × 365 = 46.54 days

Trade Payables Payment Period:
Trade Payables Payment Period = (Trade Payables / Cost of Sales) × 365
(GH¢2,100 / GH¢32,800) × 365 = 23.36 days

Gearing Ratio: Gearing Ratio = (Debt / (Debt + Equity)) × 100
Debt: Non-Current Liabilities + Current Liabilities (related to debt)
Total Debt: GH¢9,200 + GH¢1,000 = GH¢10,200
Equity: GH¢5,600
Gearing Ratio: (GH¢10,200 / (GH¢10,200 + GH¢5,600)) × 100 = 64.6%

(10 marks)

c) **Assessment of the Relative Financial Performance and Position of Suah Ltd and Nagbe Ltd for the Year Ended 30 September 2024**

In evaluating the financial health and potential as acquisition targets for Dululy Ltd, it is essential to compare Suah Ltd and Nagbe Ltd across several critical financial dimensions. These dimensions include profitability, operational efficiency, liquidity, and financial risk, all of which contribute to determining the viability and strategic fit of these companies within Dululy Ltd.'s portfolio.

Profitability

Profitability is a fundamental measure of a company's ability to generate earnings relative to its expenses and other costs. Suah Ltd demonstrates superior profitability, with a gross profit margin of 24.0%, compared to Nagbe Ltd's 18.0%. This higher margin indicates that Suah Ltd is more efficient in managing its cost of sales, allowing it to retain a larger portion of revenue as gross profit. Moreover, Suah Ltd also excels in controlling its operating expenses, reflected in a profit margin before interest and tax of 19.0%, significantly higher than Nagbe Ltd's 12.25%. This suggests that Suah Ltd is better at converting its revenue into operating profit, making it a potentially more lucrative acquisition target.

Operational Efficiency

Operational efficiency is critical for understanding how effectively a company utilizes its assets to generate revenue. Nagbe Ltd shows a higher net asset turnover of 7.14 times, compared to Suah Ltd's 3.3 times. This indicates that Nagbe Ltd is more efficient in using its assets to produce revenue, which is a positive sign of strong asset management. However, this high efficiency does not translate into superior profitability, as evidenced by Nagbe Ltd's lower profit margins. This disparity suggests that while Nagbe Ltd generates more revenue per unit of asset, it incurs higher costs or lower pricing power, resulting in reduced profitability.

Liquidity

Liquidity ratios are a measure of a company's ability to meet its short-term obligations, which is vital for maintaining operational stability. Suah Ltd has a current ratio of 2.4:1, slightly higher than Nagbe Ltd's 2.07:1. This indicates that Suah Ltd has a more comfortable liquidity position, with sufficient current assets to cover its current liabilities. Although both companies are in a relatively strong liquidity position, Suah Ltd's stronger ratio suggests it is better prepared to handle short-term financial challenges, which is a crucial consideration for Dululy Ltd when assessing the risk profile of a potential acquisition.

Financial Risk (Gearing)

The level of financial risk, as measured by the gearing ratio, indicates the extent to which a company is financed by debt relative to its equity. Both Suah Ltd and Nagbe Ltd exhibit high gearing ratios, with Suah Ltd at 65.8% and Nagbe Ltd at 64.6%. High gearing indicates a significant reliance on debt financing, which can increase the financial risk, particularly in volatile market conditions or during economic downturns. Nagbe Ltd's slightly lower gearing ratio suggests a marginally lower financial risk, but the difference is not substantial enough to clearly favor one company over the other in terms of financial stability. However, Dululy Ltd must consider the implications of this high debt reliance, as it could affect the acquired company's future profitability and cash flow.

Inventory and Receivables Management

Effective inventory and receivables management are vital for maintaining healthy cash flows and reducing the risk of liquidity crises. Suah Ltd outperforms Nagbe Ltd in both areas. Suah Ltd has a shorter inventory holding period of 31 days, compared to Nagbe Ltd's 37.82 days, indicating quicker turnover of inventory into sales. Additionally, Suah Ltd's trade receivables collection period is 31 days, significantly shorter than Nagbe Ltd's 46.54

days. This suggests that Suah Ltd is more efficient at collecting payments from customers, which enhances its cash flow and reduces the risk of bad debts. Nagbe Ltd's slower turnover and collection period could strain its cash flow, especially in periods of tight liquidity, making Suah Ltd more appealing in terms of operational efficiency.

Conclusion

Based on the analysis, Suah Ltd appears to be the stronger candidate for acquisition by Dululy Ltd. Suah Ltd excels in profitability, liquidity, and operational efficiency, which are critical factors for long-term sustainability and growth. While Nagbe Ltd shows higher asset utilization efficiency, this does not compensate for its lower profitability and slower cash flow management. Moreover, both companies have high gearing ratios, indicating substantial financial risk, but Suah Ltd's slightly better liquidity position provides a buffer against this risk.

In conclusion, Suah Ltd offers a more balanced financial profile, with stronger margins, better liquidity, and more efficient working capital management, making it a more attractive acquisition target. However, Dululy Ltd should conduct further due diligence, particularly concerning the high gearing ratios, to ensure that the acquisition aligns with its strategic goals and risk appetite.

(10 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 another entity).

This was the best answered question. Almost all the candidates calculated the ratios correctly and gave good interpretation.

QUESTION FIVE

a) **Barriers to harmonization**

1) Different purposes of financial reporting: In some countries the rules of commercial accounting are used for financial accounting and reporting and subsequent adjustments are made to ascertain the tax liability. In other countries the tax rules are the basis for the financial reporting rules.
2) Different legal systems: Some countries have a system of common law where a limited amount of statute law is developed by the courts into a substantial amount of case law. Company law does not have detailed prescriptions on company activities and the form and content of published accounts. Other countries have codified law where company law or commercial codes lay down detailed rules for financial accounting and reporting.
3) Needs of developing countries. Some developing countries are behind in the standard setting process, and they need to develop the basic standards and principles in most developed nations.
4) Nationalism: This is demonstrated by an unwillingness to accept another country's standards.
5) Cultural differences: results in the objective of accounting system differing from one country to the other.
6) Unique circumstances: Some countries may be experiencing unusual circumstances such as hyperinflation, wars, currency restrictions among others.
7) The lack of strong accountancy bodies: The strength, size and competence of the accounting profession are due to some of the factors already identified. These factors also help to shape what the current accounting practices are.

(Any five relevant points for 5 marks)

b) **Recommended actions to be taken by Dahn**

Dahn should arrange a meeting with his boss and persuade him to pass the correct entries.
Dahn should remind his boss that he has a greater responsibility as a more senior person to show responsibility by following the ICAG Code of Ethics.
Dahn should be resolute and report the matter to the audit committee or the other directors.
The below profit and loss and balance sheet extracts should be explained them.
As a last resort Dahn may consider resigning.

c) **Requirements of the code of ethics issued by SEC**

Board structure

The responsibilities of the board in terms of the operation of the company, relationship with shareholders and effective functioning of the board itself should be described in a board charter.

The board should not be too large to undermine interactive discussion during meetings; it should be sufficiently large to include the expertise and skills needed for the board to be effective. Between five and 13 members are recommended and if the actual number differs, an explanation must be given in the annual report of why the number of members is appropriate. It should include a balance of executive, non-executive and independent non-executive directors. Board members must declare any conflict of interest.

Directors

There must be a formal and transparent process for the appointment of directors to the board, overseen by the nominating committee.

No individual may hold more than three directorships of listed companies at one time.
Directors must submit themselves for re-election after between three and four years.
The chairperson of a listed company must be an independent director. One individual cannot act as chair of more than one listed company. The chairperson cannot be the same person as the managing director.

Committees

The board may exercise its powers through committees, and as a minimum there must be an audit committee, a risk committee, a remuneration committee and a nominating committee (to oversee the appointment of directors).
The audit, risk and remuneration committees must each include at least three directors, with a majority being independent nonexecutive directors.
The chair of the audit committee must be a Chartered Accountant and an independent non-executive director.

The audit committee must oversee the integrity of the accounting and financial reporting system and report to the board on this.

Internal controls

The board should maintain a sound system of internal control to controls safeguard shareholders' investments, implement Board policies and risk mitigation measures, comply with statutory and regulatory requirements, and ensure the implementation of the Board's business strategy, policies and code of ethics. An internal audit function should be established and appoint an internal auditor who reports to the audit committee. They should identify and report on weaknesses in the internal control system amongst other things.
The board should adopt a code of ethics and circulate it to staff. Directors and staff should confirm annually, in writing that they have read and understood the code.
There should be a whistleblowing procedure and whistleblowers must be protected.

Relations with shareholders

Major decisions are subject to the approval of shareholders. The board must promote and protect shareholders' rights. An individual should be appointed that is responsible for relations with investors; they are responsible for reporting investor concerns to the board amongst other things.
Listed companies must keep an active website that is accessible to the general public and specifies information required by law as well as other material information necessary for shareholders to monitor performance.

(5 marks)

d)

- The software is delivered before the other goods or services and remains functional without the updates and the technical support, therefore the entity concludes that the customer can benefit from each of the goods and services either on their own or together with the other goods and services that are readily available.

- The promise to transfer each good and service to the customer is separately identifiable from each other.
- In particular, the installation service does not significantly modify or customize the software itself and, as such, the software and the installation service are separate outputs promised by the entity instead of inputs used to produce a combined output.
- Based on the assessment, four performance obligations in the contract have been identified for all four of the above goods or services.

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question required candidates to demonstrate knowledge in the content and application of IFRS 15, fundamental ethical requirement for accountants, barriers to harmonisation of accounting standards; and requirements of Corporate Governance Code issued by the Securities and Exchange Commission (SEC).

Many candidates earned pass marks.

CONCLUSION

a) The paper was a good paper and the standard should be maintained.

b) Candidates should be encouraged to use the recommended manuals, especially the manuals produced by ICAG.