MAY 2020 PROFESSIONAL EXAMINATIONS
FINANCIAL REPORTING (PAPER 2.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

STANDARD OF THE PAPER

The standard of this paper was comparable in many respects to previously administered ones. The questions were standard for this level of examination. The marks allocations followed the weightings in the course syllabus. For all questions and sub-questions, the marks allocations were fairly done in line with course syllabus. Generally, the questions were clear in their requirements. The marking scheme made provision for alternate presentation where necessary. The questions were spread well enough to cover all areas of the syllabus. The amount of work (the relevant workings and the final answer) required by questions was commensurate with the allotted time and marks of this paper. There were no typos, errors, and ambiguities throughout the questions within the paper.

PERFORMANCE OF CANDIDATES

The performance in this diet was average. This could be attributed to lack of adequate preparation by many candidates for the paper. Performance of candidates at various centres around the country differed significantly. Candidates did so well in some centres and at the same time candidates did so poorly in some centres too. This imbalance of candidates' performances across centres affected the general performance in the paper. There was no evidence to suggest any possible copying in the examination.

NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES

Many candidates, especially those who passed the paper, demonstrated a deeper understanding of appraisal of financial performance and position, preparation of consolidated statement of profit or loss and other comprehensive income, and the final accounts. Candidates scored good marks in these areas.

The following are notable weaknesses of candidates in the paper:

- Many candidates performed poorly in the IFRSs/IASs. This suggest the lack of adequate preparations in this important aspect of the paper.
- Most candidates failed to understand the question on ethics thereby discussing the ethics generally without linking it to the scenario presented in the question.
- Some candidates had weaknesses in the use of the answer booklets; writing in margins they were not supposed to write including lower margins on the booklets.
- Generally, majority of candidates were simply not prepared for the examination and as a result scored very low marks in the paper.
- Poor time management by some candidates as these candidates could not attempt all questions in the paper thereby reducing the chances of passing the examination.

QUESTION ONE

Naa Ltd on April 1, 2019 acquired 60% of the 75 million equity shares of Shormeh Ltd. The acquisition was achieved through a share exchange transaction of one share in Naa Ltd for every three shares in Shormeh Ltd. At the acquisition date, the share prices of both Naa Ltd and Shormeh Ltd were GH¢4 and GH¢2.50 each respectively. In addition, Naa Ltd will pay GH¢1.54 cash on March 31, 2020 for each share acquired. The cost of capital of Naa Ltd is 10% per annum.

Statements of profit or loss and other comprehensive income for the companies for the year ended 30 September 2019 are stated below:

	Naa Ltd	**Shormeh Ltd**
	GH¢000	**GH¢000**
Sales revenue	310,000	155,000
Cost of sales	(200,000)	(75,000)
Gross profit	110,000	80,000
Distribution costs	(20,000)	(10,000)
Administrative expenses	(18,000)	(12, 500)
Investment income	2,500	800
Finance costs	(1,000)	(2,800)
Profit before tax	73,500	55,500
Income tax expenses	(22,500)	(15,500)
Profit for the year	51,000	40,000
Other comprehensive income:		
Gained (loss) on revaluation of land	(1,100)	1,500
Total comprehensive income	**49,900**	**41,500**

Additional relevant information:

i) On April 1, 2019, a fair value exercise was conducted and concluded that the carrying amounts of Shormeh Ltd's net assets were equal to their fair values with the exception of the following:

- The fair value of Shormeh Ltd land was GH¢1 million in excess of its carrying amount.
- An item of plant had a fair value of GH¢3 million in excess of its carrying amount. The plant had a remaining useful life of two years at the date of acquisition. Plant depreciation is charged to cost of sales.

ii) At acquisition date, Naa Ltd placed GH¢2.5 million on Shormeh Ltd's good trading relationship with its customers. Naa Ltd expects that this customer relationship will last for a further 5-years. Amortisation of intangible assets is charged to administrative expenses.

iii) The group policy of Naa Ltd is to value land to market value at the end of each accounting period. Before the acquisition, Shormeh Ltd land had been valued at historical cost, but it has adopted the group policy since its acquisition. In addition to the fair value increase in Shormeh Ltd land, it had increase by a further GH¢0.5 million since the acquisition.

iv) The successful completion of the acquisition resulted in the sale of goods from Naa Ltd to Shormeh Ltd valued at GH¢10 million. At 30 September 2019, Shormeh Ltd still held one fifth of these goods in inventory. Naa Ltd charged a markup of 25% on cost.

v) On April 1, 2019, Naa Ltd also purchased 20% of Pamela Ltd equity shares. Pamela Ltd profit after tax for the year ended 30 September 2019 was GH¢5 million and during September 2019 Pamela Ltd paid a dividend of GH¢3 million. However, Shormeh Ltd did not pay any dividends in the year ended 30 September 2019.

vi) In September 2019, Naa Ltd also sold goods to Pamela Ltd for an amount of GH¢7.5 million, all of which were still in inventory as at 30 September 2019. Naa Ltd charged 25% mark-up on cost.

vii) It is the group policy of Naa Ltd to value the non-controlling interest at the acquisition date at fair value. For the purpose of this, the share price at acquisition date is representative of the fair value of shares held by the non-controlling interest.

viii) The retained earnings of Shormeh Ltd brought forward to October 1, 2018 were GH¢60 million.

ix) All items of income and expenditure are deemed to accrue evenly throughout the period unless otherwise stated.

Required:

a) Prepare the consolidated statement of profit or loss and other comprehensive income for the year ended 30 September 2019. **(17 marks)**

b) Calculate the consolidated goodwill that arose on the acquisition date. **(3 marks)**

(Total: 20 marks)

QUESTION TWO

a) Ejura Ltd (Ejura) is a Manufacturing and retail company which prepares financial statements in accordance with International Financial Reporting Standards (IFRS) up to 31 December each year.

In order to generate or improve sales on one of its older products, Ejura offered a promotion named 'something for free'. The promotion included free maintenance services for the first two years. On 1 October 2019, under the promotional offer, Ejura sold goods to a supermarket chain for GH¢4.4 million. A two-year maintenance contract would normally be sold for GH¢0.5 million, and the list price of the product would normally be GH¢5 million. The transaction has been included in revenue at GH¢4.4 million.

Required:

In accordance with ***IFRS 15: Revenue from Contracts with Customers***, justify the appropriate accounting treatment for the above transaction in the financial statements of Ejura for the year ended 31 December 2019. **(7 marks)**

b) In accordance with ***IFRS 5: Non-Current Assets held for Sale and Discontinued Operations*** explain with reasons, whether each of the following could most likely be classified as a discontinued operation in this year's financial statements:

i) A reportable operating segment that met the definition of held for sale after the year end, but before the financial statements were authorised for issue. **(2 marks)**

ii) A division of a business, classified as held for sale, that was correctly treated as a discontinued operation in last year's financial statements, but which has not been sold by this year-end due to the sale being referred to the Securities and Exchange Commission (SEC). SEC is not expected to report its findings until 6 months after this year end.

(2 marks)

c) Asamankese Ltd (Asamankese) purchased a 6% GH¢50 million bond on 1 August 2018 at a 10% discount to par value. Expenses of purchase were GH¢500,000. The bond is due for redemption on 31 July 2028 at par. The effective annual interest rate to maturity is 7.3%. Asamankese intends to hold the bond until its maturity date.

Required:
In accordance with ***IFRS 9: Financial Instruments***, how much should be recognised in Asamankese financial statements in respect of the above transaction for the year ended 31 July 2019 (to two decimal places)? **(5 marks)**

d) Dambai Ltd (Dambai) is a large manufacturing company. Wherever possible, it structures its operations to take advantage of any financial assistance available from national and regional authorities.

During the year, Dambai decided to relocate some of its other operations to a regional development area, which offers attractive labour costs and tax incentives. The regional government agreed to contribute GH¢200,000 as a result of Dambai setting up in the regional development area. There are no particular conditions as to what the money should be spent on. The cash was received on 1 August 2019.

Required:
In accordance with ***IAS 20: Accounting for Government Grants and Disclosure of Government Assistance*** explain the financial reporting treatment of the above in the financial statements of Dambai for the year ended 31 December 2019. **(4 marks)**

(Total: 20 marks)

QUESTION THREE

Badu Trading Ltd has prepared the following draft financial statements for your review

Badu Trading Ltd
Statement of profit or loss for the year ended 31 May 2020

	GH¢000
Revenue	30,000
Raw materials consumed	(9,500)
Manufacturing overheads	(5,000)
Increase in inventories of work in progress and finished goods	1,400
Staff costs	(4,700)
Distribution costs	(900)
Depreciation	(4,250)
Interest payable	(350)
Interim dividend paid	(200)
	6,500

Statement of financial position as at 31 May 2020

	GH¢000	GH¢000
Assets		
Non-current assets		
Freehold land and buildings		20,000
Plant and machinery		14,000
Fixtures and fittings		5,600
		39,600
Current assets		
Prepayments	200	
Trade receivables	7,400	
Inventories	4,600	
Cash at bank	700	
		12,900
Total assets		**52,500**
Equity and liabilities		
Share Capital		21,000
Revaluation reserve		5,000
Retained Earnings		14,000
Total equity		40,000
Current liabilities		7,300
Non-current liabilities		
8% Debentures 2024		5,200
Total equity and liabilities		**52,500**

Additional information:

i) Income tax of GH¢2.1 million is yet to be provided for on profit for the current year. An unpaid under-provision for the previous year's liability of GH¢400,000 has been identified on 5 June 2020 and has not been reflected in the draft accounts.

ii) There have been no additions to, or disposals of, non-current assets in the year but the assets under construction have been completed in the year at an additional cost of GH¢50,000. These relate to plant and machinery.
The cost and accumulated depreciation of non-current assets as at 1 June 2019 were as follows:

	Cost	**Depreciation**
	GH¢000	**GH¢000**
Freehold land and buildings	19,000	3,000
(land element GH¢10 million)		
Plant and machinery	20,100	4,000
Fixtures and fittings	10,000	3,700
Assets under construction	400	-

iii) There was a revaluation of land and buildings during the year, creating the revaluation reserve of GH¢5 million (land element GH¢1 million). The effect on depreciation has been to increase the buildings charge by GH¢300,000. Badu Trading Ltd adopts a policy of transferring the revaluation surplus included in equity to retained earnings as it is realised.

iv) Staff costs comprise 70% factory staff, 20% general office staff and 10% goods delivery staff.

v) An analysis of depreciation charge shows the following:

	GH¢000
Buildings (50% production, 50% administration)	1,000
Plant and machinery	2,550
Fixtures and fittings (30% production, 70% administration)	700

Required:

Prepare the following information in a form suitable for publication for Badu Trading Ltd's financial statements for the year ended 31 May 2020.

a) Statement of profit or loss **(7 marks)**
b) Statement of financial position **(7 marks)**
c) Statement of changes in equity **(6 marks)**

(Total: 20 marks)

QUESTION FOUR

Adenta Ltd (Adenta) assembles telecommunication equipment and sells to wholesalers and retailers. The following ratios relate to the average figures for Adenta's industry for the year ended 31 December, 2018:

Return on capital employed	20.10%
Gross profit margin	32%
Net profit (before tax) margin	12.50%
Current ratio	1.6:1
Acid-test ratio	0.9:1
Inventory turnover period	46 days
Trade receivable collection period	45 days
Debt-to-equity ratio	40%
Dividend yield	6%
Dividend cover	3 times

Adenta's financial statements for the year to 31 December, 2018 are set out below:

Statement of Profit or Loss for the year ended 31 December, 2018

	GH¢'000
Sales	48,500
Cost of sales	(37,400)
Gross profit	11,100
Operating expenses	(6,880)
Operating profit	4,220
Finance cost	(500)
Profit before taxation	3,720
Taxation	(1,800)
Profit after taxation	**1,920**

Extracts of Statement of Changes in Equity for the year ended 31 December, 2018

	GH¢'000
Retained earnings as at 1 January 2018	3,580
Net profit after tax	1,920
	5,500
Dividends	(1,800)
Retained earnings as at 31 December 2018	**3,700**

Statement of Financial Position as at 31 December 2018

	GH¢'000
Non-current assets	
Property, plant and equipment	10,800
Current Assets	
Inventories	5,500
Trade receivables	6,400
	11,900
Total assets	**22,700**
Equity	
Stated capital (Ordinary shares issued @ GH¢0.25 per share)	3,000
Retained earnings	3,700
	6,700
Non-current Liabilities	
8% Debenture	6,000
Current liabilities	
Bank overdraft	1,300
Trade payables	7,000
Taxation	1,700
	10,000
Total equity and liabilities	**22,700**

(Note: The market price of Adenta's shares throughout the year averaged GH¢6.00 each.)

Required:

a) Calculate the ratios for Adenta Ltd equivalent to the industry averages. **(10 marks)**

b) As the Financial Controller of Adenta Ltd, write a report to the Board of Directors analysing the financial performance of Adenta Ltd based on a comparison with the industry averages. **(10 marks)**

(Total: 20 marks)

QUESTION FIVE

a) Mrs. Stella Amoah (Stella), a Chartered Accountant and Head of Internal Audit in Ningo Communications Authority (NCA) is about to tender for a contract in Internal Audit Service. A new member of her team, Mr. Stephen Appiah Coker (Stephen) has been recruited from the Internal Audit Service, who previously worked in the department responsible for devising the tender contract. Although Stephen was not involved with the tender process, his former colleague and friend is responsible for the tender specification document and the evaluation process.

Stephen had sight of some of the requirements and has offered to share with Stella information that may be of use when preparing the tender. However, this information is confidential and should not be seen by any of the tendering parties.

It will be an open tender process for both external and internal providers. Bids from external providers are being encouraged. The evaluation process has been designed with this in mind. If the contract is awarded externally, Stella will be unsure of her personal position in the organisation. She understands the use of any insider knowledge of the tendering process would be inappropriate when preparing the tender proposal, but she feels she would have a better chance of success if she used this confidential information.

Required:
Advise Mrs. Stella Amoah on **THREE (3)** courses of action she should take in order to act ethically in the tendering process given in the above scenario. **(6 marks)**

b) Amankwatia Ltd (Amankwatia) is a local construction company. The regulation in the construction sector requires employers to provide personal protective equipment for every employee. The company failed to do that, and a Plumber got involved in an accident in the course of work resulting in a serious and costly injury. The Plumber has sued the company. The Solicitors of the company have prepared to vigorously defend the company in the lawsuit. They estimated that the company would have to make a compensation of GH¢17,000 to cover the injured party's costs. A court decision, however, is not expected for at least a year.

Required:
What aspects of the ***conceptual framework*** might help you in determining the appropriate accounting treatment for this situation? **(4 marks)**

c) Discuss what is meant by the concept of an entity's ***functional currency*** and ***how it may be determined*** in accordance with ***IAS 21: The Effects of Changes in Foreign Exchange Rates.*** **(5 marks)**

d) ***IFRS 10: Consolidated Financial Statements*** outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate other entities it controls. The control principle in IFRS 10 sets out the following three elements of control: power over the investee; exposure, or rights, to variable returns from involvement with the investee; and. the ability to use power over the investee to affect the amount of those returns.

Required:

i) What are ***Consolidated Financial Statements***? **(1 mark)**

ii) Identify **FOUR (4)** circumstances under which a company may gain control over another company but ***will not be allowed*** to prepare consolidated financial statements. **(4 marks)**

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

a) **Naa Ltd Group**

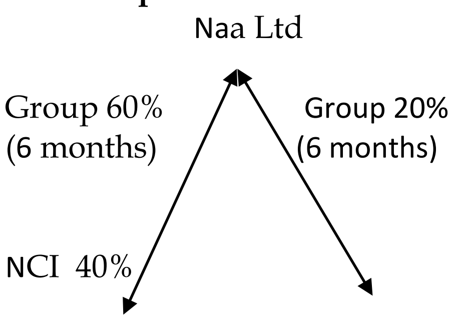
Consolidated statement of profit or loss and other comprehensive income for the year ended 30 September 2019

	GH¢000
Sales revenue (GH¢310,000 + (GH¢155,000 x 6/12) - GH¢10,000	377,500
Cost of sales W3	(228,950)
Gross profit	148,550
Distribution costs (GH¢20,000 + (GH¢10,000 x 6/12)	(25,000)
Admin expenses (GH¢18,000 + (GH¢12,500 x 6/12) + (GH¢2,500/5yrs x 6/12)	(24,500)
Investment income: share of profit from associate (GH¢5,000 x 20% x 6/12)	500
Other investment income (GH¢2,500 – GH¢600 div from associate) + GH¢800 x 6/12)	2300
Finance costs (GH¢1,000 + (GH¢2,800 x 6/12) + (GH¢63,000 x 10% x 6/12)	(5,550)
Profit before tax	96,300
Income tax expense (GH¢22,500 + (GH¢15,500 x 6/12)	(30,250)
Profit for the year	**66,050**
Other comprehensive income:	
Loss on revaluation ((GH¢1,100) – (GH¢1,500 – GH¢1,000)	(600)
Total comprehensive income	65,450
Profit for the year attributable to:	
Shareholders of parent (GH¢66,050 – GH¢7,600)	58,450
Non-controlling interest (GH¢40,000 x 6/12 - GH¢750 - GH¢250 x 40%)	7,600
	66,050
Total comprehensive income attributable to:	
Shareholders of the parent (GH¢65,450 – GH¢7,800)	57,650
Non-controlling interest (GH¢7,600 + (GH¢1,500 - GH¢1,000 x 40%)	7,800
	65,450

Marking scheme - (Maximum 60 ticks @ 0.28 marks per tick up to a maximum of 17 marks). This includes cost of sales calculations in working 3

Workings

W1 Group structure



Shormeh Ltd Pamela Ltd

W2 Net assets – Shormeh Ltd

	GH¢000	**Acquisition date GH¢000**	**Reporting date GH¢000**
Share capital		75,000	75,000
Retained Earnings: Bal b/f	60,000		
Plus (6/12 x GH¢40,000)	20,000	80,000	100,000
Fair value at acquisition date:			
a). Land		1,000	1,000
b). Plant		3,000	3,000
Addition Depreciation (GH¢3m/2yrs x 6/12)		--	(750)
Customer relationship asset at acquisition		2,500	2,500
Additional amortization (GH¢2.5/5yrs x 6/12)		-	(250)
		161,500	**180,500**

W3 Group cost of sales

	GH¢000
Naa Ltd	200,000
Shormeh ltd (GH¢75,000 x 6/12)	37,500
Intra-group purchases	(10,000)
Additional depreciation(GH¢ 3000 / 2yrs x 6/12)	750
Unrealized profit in inventories:	
Sales to Shormeh Ltd (GH¢10,000 x 1/5 x 25/125)	400
Sales to Pamela Ltd (GH¢7,500 x 20% x 25/125)	300
	228,950

b) Goodwill calculation

	GH¢000
Purchase consideration:	
Shares (60% x 75,000 shares x 1/3 x GH¢4)	60,000
Deferred consideration (60% x 75,000 shares x GH¢1.54 x 1/1.1)	63,000
	123,000
Fair value of NCI at acquisition date (40% x 75,000 shares x GH¢2.50)	75,000
	198,000
Net asset at acquisition date	(161,500)
	36,500

(Marking scheme (12 ticks –@ 0.25 marks each up to a maximum of 3 marks)

Alternative Working for goodwill

	GH¢000	GH¢000
Purchase consideration		123,000
Share of net assets (60% x GH¢161, 500)		(96, 900)
		26,100
Fair value of NCI at acquisition date	75,000	
NCI share of net assets at acquisition date (40% x GH¢161, 500)	(64,600)	10,400
		36,500

(Marking scheme (12 ticks 0.25 marks each up to a maximum of 3 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

This question tested the preparation of consolidated statement of profit or loss and other comprehensive income and the calculation of goodwill in accordance with relevant International Financial Reporting Standards (IFRS). The basic group structure consisted of a parent company (Naa Ltd) and 60% subsidiary (Shormeh Ltd) for six (6) months period. The parent company also held a 20% associate investment in Pamela Ltd for six (6) period.

Many candidates had full grips of consolidation and as a result scored good marks on this question. Others had difficulty in computing relevant figures including unrealised profits and share of post-acquisition profits from the associate company for the preparation of the consolidated statement of profit or loss and other comprehensive income. The second part of the question required the calculation of goodwill of the acquisition of Shormeh Ltd. Many candidates were able to determine the net assets at acquisition and subsequently calculated the goodwill correctly. However, poorly prepared candidates struggled to calculate the goodwill correctly. Generally, this question was well attempted by candidates.

QUESTION 2

a) Under (IFRS 15), each component should be measured separately. As only three months of the maintenance service has been provided, we should only recognize 3/24 of the maintenance fee as revenue in the year ended 31 December 2019. The remainder should be treated as deferred income and recognized as the service is being provided.

The sale of goods, however, should be recognized immediately. As the total of the fair values exceeds the overall price of the contract, a discount has been provided.

As we do not know what has been discounted, it would seem reasonable to apply the same discount percentage to each separate component.

The discount is 20% based on listed prices (i.e. [4.4m/(5m + 0.5)] – 1).

	GH¢m
Sale of goods (GH¢5m x 80%)	4
Sale of services (3/24 x GH¢0.5m x 80%)	0.05
Revenue to be recognized in year ended 31 December 2019	4.05

Deferred income should be measured at GH¢0.35m (21/24 x GH¢0.5m x 80%). Revenue (retained earnings should therefore be reduced by GH¢0.35m.

	GH¢m	**GH¢m**
Dr Retained earnings	0.35	
Cr Deferred Income (CL)		0.35

Explanation of the separate measurement of the components - 2 mark
Revenue Recognition - 2 marks
Deferred Income - 1 mark
Correct Journal entries for the treatment – 2 marks

Alternative presentation for IFRS 15: Revenue recognition

	GH¢ million	GH¢ million
Total transaction price		4.4
Revenue to be recognized:		
Product sale (GH¢5 million / GH¢5 million + GH¢0.5 million x GH¢4.4 million	4	
Maintenance (3/24 months x 0.4 million	0.05	4.05
Deferred revenue		0.35

Five (5) point criteria for recognition of revenue

Step 1: Identify contract with the customer

Step 2: Identify the performance obligations within the contract

- Sale of product
- Maintenance contract

Step 3: Determine the transaction price – the transaction price is GH¢4.4 million

Step 4: Allocate the transaction price among the performance obligations within the contract

- Based on the standalone selling price of the individual obligations
- Where the standalone selling price are not available, use expected cost plus %
- Where the above is not available, use the residual approach.

In this case, the scenario provides the standalone selling prices and hence, these shall be used to allocate the price. Allocation of transaction price to:

Sale of products (GH¢5 million / GH¢5 million + GH¢0.5 million x GH¢4.4 million = GH¢4
Maintenance: GH¢0.5 million/ GH¢5 million + GH¢0.5 million x GH¢4.4 million =

Step 5: Recognise the revenue over time or at point in time

- Revenue from the product would be recognize during the contract period as control over the product is transferred to the customer.
- Revenue from the maintenance contract would be earned over a period of 24 months. Therefore, for the current period, 3/24 months would be recognised as revenue, and the remainder would be deferred.

b)

i) Classification as held for sale is a non-adjusting event after the reporting period (IAS 10 para 22(c)). Therefore the definition of a discontinued operation is not met as the assets are neither discontinued in the period nor classified as held for sale at the year end. **(2 marks)**

ii) For an operation not yet sold or abandoned to meet the definition of discontinued operation, it must meet the IFRS 5 held for sale criteria. All of these criteria were met at the previous year end, however at the current year end the operation was not sold within 12 months of classification and the period is expected to be extended well past this. However, where the period is extended by an event beyond the entity's control such as this IFRS 5 Appendix B permits classification as held for sale (and therefore treatment as a discontinue operation) to continue provided the other criteria are still met, which appears to be the case here.
(2 marks)

Identification of the reportable operating segment as a discontinued – 1 mark
Explanation of the treatment – 1 mark

c)

The initial carrying value of the bond will be as follows:

	GH¢m	
Purchase price (90% of GH¢50)	45	
Add: Purchase costs	0.5	
Total asset cost recognized		45.5

Finance income will be recognized @ 7.3% of the opening carrying value 3.32

Financial assets measured at amortized costs

	Asset @ start	Finance Income (7.3%)	Interest Received (6%)	Asset @ end
	GH¢	GH¢	GH¢	GH¢
2018/2019	45.5	3.322	(3)	45.8

Profit or Loss (Extract) for the year ended 31/7/2019

	GH¢
Finance Income	3.322

Statement of Financial Position as at 31/7/2019 extract

	GH¢
Financial assets	45.8

This bond meets the criteria for classifying it as Amortized Cost. These are

- the cash flows to be derived from the instrument are solely interest and principal, and
- the entity intends to hold the instrument to draw the contractual cash flows.

Hence the amortized cost method is appropriate. Fair value is irrelevant.

Initial recognition of bond at amortised cost: 2 marks
Treatment of finance income in P&L: 1 mark
Amortsied cost schedule: 1 mark
Statement of Financial Position Extract: 1 mark

d)

- The contribution of GH¢200,000 by the regional government is not dependent on any particular activities of the entity.
- The GH¢200,000 should be credited directly to profit or loss as it does not compensate specific expenses**.**

Recognition of the GH¢200,000 Government Grant - 2 marks
Treatment of the GH¢200,000 in Profit or Loss - 2 marks
(Total: 20 marks)

EXAMINER'S COMMENT

This question was poorly attempted by majority of candidates which contributed to the performance in the paper. This question was split into four (4) distinct parts and tested for the basic understanding and application of the following accounting standards:

a) IFRS 15: Revenue from Contracts with Customers

Very few candidates were able to understand and suggest correctly appropriate accounting treatment. Many candidates attempted but not successful while other candidates completely failed to attempt this question. However, many candidates were able to spell out the five steps criteria to recognition of revenue but were unable to apply this to the scenario present in Ejura Ltd.

b) IFRS 5: Non-Current Assets held for Sale and Discontinued Operations
Many candidates incorrectly misapplied the criteria for qualification to be classified as Non-Current Assets held for Sale and Discontinued Operations under IFRS 5. In the first part of the question even though the operating segment met the criteria, it was after the year end and that was non-adjusting event (IAS 10). Many candidates failed to acknowledge *after the year end* and therefore provided incorrect answers. The last part was not different as many candidates equally failed to acknowledge that referring the sale to the Securities and Exchange Commission was not under the control of the management of the company. Although this question was supposed to be relatively straightforward for candidates as it didn't involve any calculations, many candidates got it wrong.

c) IFRS 9: Financial Instruments
This sub question tested for financial assets acquired and to be accounted for as amortised costs in accordance with IFRS 9: Financial Instruments. Many candidates did not know how to deal with this transaction. Few candidates got it right by deducting the discount from the bond nominal value and adding the transaction cost after which an amortised cost table was prepared. Candidates who got the clue scored all 5 marks. However, majority of candidates could not account for this transaction. Few candidates although managed to prepare the amortised cost table but confused the financial assets as a liability. Generally, this sub question was poorly answered.

d) IAS 20: Accounting for Government Grants and Disclosure of Government Assistance
This question tested for revenue grant given by a Regional Government to Dambai Ltd. Some candidates failed to specifically answer the question, instead were discussing their general knowledge on the standards. Many candidates answered this question correctly.

QUESTION THREE

Badu Trading Ltd

a) **Statement of profit or loss for the year ended 31 May 2020**

	GH¢000
Revenue	30,000
Cost of sales (w1)	(19,650)
Gross profit	10,350
Distribution costs (w1)	(1,370)
Administrative expenses (w1)	(1,930)
Profit from operations	7,050
Finance costs	(350)
Profit before tax	6,700

Tax (w2)	(2,500)
Profit after tax	4,200

(7 Marks evenly spread using ticks = 7 marks)

b) **Statement of financial position as at 31 May 2020**

	GH¢000	GH¢000
Assets		
Non-current assets		
Property, plant and equipment		39,600
Current assets		
Inventory	4,600	
Trade and other receivables (7,400 + 200)	7,600	
Cash and cash equivalents	700	
		12,900
Total assets		**52,500**
Equity and liabilities		
Capital and reserves		
Equity shares		21,000
Revaluation reserve		4,700
Accumulated profits		11,800
Total equity		37,500
Non-current liabilities		
8% Debentures 2024		5,200
Current liabilities		
Trade and other payables	7,300	
Taxation (2,100 + 400)	2,500	
		9,800
Total equity and liabilities		**52,500**

(7 Marks evenly spread using ticks = 7 marks)

c) **Statement of changes in equity for the year ended 31 May 2020**

	Share capital	Revaluation reserve	Retained profits	Total
	GH¢000	GH¢000	GH¢000	GH¢000

Balance at beginning of year	21,000	0	7,500	28,500
Dividends paid			(200)	(200)
Profit for the period			4,200	4,200
Other comprehensive income:				
Revaluation of non current assets		5,000		5,000
Transfer of excess depreciation on revaluation		(300)	300	0
Balance at end of year	**21,000**	**4,700**	**11,800**	**37,500**

(6 Marks evenly spread using ticks = 6 marks)

(Total: 20 marks)

Workings

1 **Allocation of expenses**

	Cost of sales GH¢000	Admin GH¢000	Distrib GH¢000
Raw materials consumed	9,500		
Manufacturing overheads	5,000		
Increase in inventories	(1,400)		
Staff costs (70%/20%/10%)	3,290	940	470
Distribution costs			900
Depreciation			
Building (50%/50%)	500	500	
Plant and machinery	2,550		
Fixtures and fittings (30%/70%)	210	490	
	19,650	1,930	1,370

2 **Accumulated profits brought forward**

	GH¢000	GH¢000
Accumulated profits carried forward per question		14,000
Less tax charge		

- Current year estimate	2,100	
- Underprovision in previous year	400	
	-----	(2,500)
Add transfer of excess depreciation on revalued building		300

		11,800

3 Property, Plant and Equipment schedule

	Freehold land and buildings	Plant and Machinery	Fixtures and fittings	Assets under Construction	Total
	GH¢000	GH¢000	GH¢000	GH¢000	GH¢000
Cost at (1/6/19)	19,000	20,100	10,000	400	49,500
Depreciation (1/6/19)	(3,000)	(4,000)	(3,700)	-	(10,700)
Carrying amounts (1/6/19)	16,000	16,100	6,300	400	38,800
Additions				50	50
Reclassification		450		(450)	nil
Revaluation gain	5,000				5,000
Depreciation charges -2020	(1,000)	(2,550)	(700)	nil	(4,250)
Carrying amount (31/5/2020	20,000	14,000	5,600	nil	39,600

EXAMINER'S COMMENT

This question required candidates to prepare statement of profit or loss, statement of financial position, and statement of changes in equity for the year ended May 31, 2020 for Badu Trading Ltd.

Many candidates scored good marks on this question. This suggest that candidates prepared well on the preparation of final accounts for a limited liability company. However, some candidates although the requirements indicated for publication, still prepared the statement of profit or loss for internal use. Some candidates also performed poorly which suggested lack of adequate preparation for the examination on this topic. Some candidates performed poorly on the statement of changes in equity. Candidates should be well prepared in this area for future professional examinations as this topic is important for all qualified accountants. Candidates with poor performance in this area may have poor foundation in previous studies. The statement of financial position was well attempted. Generally, this question was well attempted by candidates.

QUESTION FOUR

a) Calculation of ratios for 2018:

Ratio	**Basis**	**Computation**	**Answer**
1. Return on Capital Employed	Profit before interest and taxes *100 Capital employed	4,220 *100 12,700	33.23%
2. Gross profit margin	Gross profit *100 Sales	11,100 *100 48,500	22.89%
3. Net Profit (before tax) margin	Net profit (before tax) *100 Sales	3,720 *100 48,500	7.67%
4. Current ratio	Current assets :1 Current liabilities	11,900 :1 10,000	1.19:1
5. Acid-test ratio	Current assets – Inventories :1 Current liabilities	6,400 :1 10,000	0.64:1
6. Inventory turnover period	Inventory * 365 Cost of sales	5,500 * 365 37,400	54 days
7. Trade receivables collection period	Trade receivables *365 Sales	6,400 * 365 48,500	48 days
8. Debt-to-Equity ratio	Long-term debt *100 Shareholders' equity	6,000 *100 6,700	89.55%
9. Dividend yield	Dividend per share *100 Market price per share	0.15 *100 6	2.5%
10. Dividend cover	Net profit after tax Dividends paid	1,920 1,800	1.07times

(Marks evenly spread for correct computation of ratios x 10 ratios = 10 marks)

b) Report to the Board of Directors

To: The Board
From: Financial Controller
Date: 1 November, 2019
Subject: Analysis of Adenta Limited's financial performance compared to industry average for the year to 31 December, 2018.

Introduction
This report present an analysis of the financial performance of Adenta Ltd compared to the industry averages.

Profitability
The return on capital employed of Adenta is impressive being higher than the industry average. The company is employing its assets more efficiently and effectively in generating more revenue and hence income. However, gross profit margin and net profit margin of Adenta are comparatively lower than the industry averages. This implies that the company is incurring more costs in generating its revenue.

Liquidity
Adenta Ltd's current and quick ratios are much worse than the industry average, and indeed far below expected norms. Current liquidity problems appear due to high levels of trade payables and a high bank overdraft. The high level of inventories constitutes to the poor acid test ratio and may be indicative of further obsolete inventories. The trade receivables' collection figure is reasonable compared to the industry average.

Gearing
Adenta Ltd's gearing is more than twice the level of the industry average. The company is making an overall return of 33.23% but only paying 8% interest on its loans notes. The gearing level may become a serious issue if Adenta becomes unable to maintain the finance costs. The company already has an overdraft and the ability to make further interest payments could be in doubt.

Investment Ratios
Despite reasonable profitability figures, Adenta's dividend yield is poor compared to the sector average. From the extracts of the changes in equity it can be seen that total dividends are GH¢1.8 million out of available profit for the year of only GH¢1.92 million, hence the very low dividend cover, compared to the industry average.

Conclusion
The company compares favourably with the industry average figures for profitability, however, the company's liquidity and gearing position is quite poor and gives cause for concern.

Signed
Financial Controller

(2 marks for the structure of the report = 2 marks)
(8 marks for analysis of performance = 8 marks)
(10 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

The question required candidates to calculate financial ratios of Adenta Limited, and to write a report to the Board of Directors analyzing the financial performance of Adenta Ltd based on a comparison with the industry averages.

Candidates across various centres performed well on this question. Candidates calculated financial ratios well and reports were well structured. Generally, the question was well answered across all centres by candidates. This is one of the areas candidates appeared to have prepared well for the examination.

QUESTION FIVE

a) **Suggested course of action**

- The information that is being made available is confidential and should not be used in her tender document. Although there is potential personal gain from using the evaluation information, she should not refer to it in the proposal.
- She should explain to the member of staff who is making the information available that his offer of assistance cannot be acted upon as this would be in breach of IFAC's code of ethics.
- She should stop her member of staff from saying anything further about the tender. She should explain to the tendering department if she has been made aware of any additional information so that they can make it available to the other bidders.
- She must also make her employee aware that she will not be using any confidential information and that he should inform his former colleague of this. She does not want to be subject to any rumour that she had sight of any evaluation documentation as this could jeopardize her tender proposal.
- By openly stating her intended actions, she is also demonstrating a level of expected ethical behaviour to the department.

(3 points @ 2 marks each = 6 marks)

b) The definition of liability can help decide the accounting treatment of the situation. Under the conceptual framework a liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. In this case, the past event is the fall and injury to the pedestrian.

Present obligation depends on the probability of payment. The solicitors has advised that a GH¢17,000 loss is probable. Therefore appropriate accounting involves recognizing a liability for the probable payment. An expense would also be recognized.

(Criteria for recognition of liability – 2 marks)
(Explanation of whether or not the Bank can be recognized – 2 marks)

c) The functional currency of an entity can be understood literally as the currency in which the entity functions. The choice of functional currency is a judgment which must be made under IAS 21. The judgment involves assessing the facts, and deciding the currency on which the entity is most dependent economically. For most entities, the functional currency is a clear judgment, in that most entities operate primarily within a single economy or currency zone.

However IAS 21 does offer some guidance should the judgment prove difficult. This can happen if more than one currency is important to the entity and it is not clear which is the most significant.

IAS 21 requires that the entity consider:

- The currency which most affects sales prices; and
- The currency in which purchases and other costs are incurred.
- The currency of the most significant providers of capital; and
- The currency in which operating receipts are retained.

(Explanation of functional currency 2 marks)
(Any 3 factors @ 1 mark 3 marks)

d)

i) According to ***IFRS 10: Consolidated Financial Statements*** are the financial statements of a parent and its subsidiaries presented as if they are the financial statements of a single economic entity.

(1 mark)

ii) **Exemption from preparing consolidated financial statements**

A parent need not prepare consolidated financial statements providing:

- It is itself a wholly-owned subsidiary, or is partially-owned with the consent of the non-controlling interest (Non -Controlling interest); and
- It debt or equity instruments are not publicly traded; and
- It did not or is not in the process of filing its financial statements with a regulatory organization for the purpose of publicly issuing financial instruments; and
- The ultimate or any intermediate parent produces consolidated finical statements available for public use that comply with IFRS.

(1 mark for each exemption up to maximum of 4 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

This question tested for causes of action to take when faced with ethical dilemma, conceptual framework definition of a liability, IAS 21: The effects of Changes in Foreign Exchange Rates, definition of consolidated financial statements and exceptions from the preparation of financial statements

a) This aspect of the question tested the application of the ethical principles. Candidates were required to advise Mrs. Stella Amoah on three (3) courses of action she should take in order to act ethically in a tendering process given in a scenario.
Some candidates performed well as they were able to apply and related the ethical principles to the scenario given. However, majority of the candidates simply explained the fundamental ethical principles generally without any attempt to relate the principles to the scenario in advising Mrs. Stella Amoah. As a result, candidates lost marks on this sub-question. Generally, this question was poorly attempted.
b) This sub question tested for the definition and application of a liability in accordance with the Conceptual Framework 2018 revised. A company failed to provide personal protective equipment to a plumber who got injured in the course of work. Candidates were required to identify and apply an aspect of the Conceptual Framework that might help in determining the appropriate accounting treatment for the situation in the scenario.
Some candidates correctly identified and recommended the accounting treatment of the liability. Unfortunately, majority of candidates failed to identify an aspect of the Framework in accounting for the transaction and lost important marks.
c) This sub-question required candidates to discuss functional currency of an entity and factors an entity will consider in the determination of its functional currency in accordance with *IAS 21: The Effects of Changes in Foreign Exchange Rates*
Many candidates discussed this aspect well and scored high marks. However, many candidates failed to discuss this correctly. Some candidates failed to attempt this question completely, suggesting that such candidates did not prepare well across the selected standards they should have prepared for based on the financial reporting standards. Generally, this sub-question was not well answered.
d) This sub-question required candidates to define consolidated financial statement and explain the circumstances a parent company may be exempted from preparing consolidated financial statements.
This sub-question was very popular among the candidates as it was generally answered well across all centres in the country.

CONCLUSION
Future candidates should be oriented on the need to prepare adequately before presenting themselves for the examination of the Institute of Chartered Accountants (Ghana). The selective preparation of candidates for the examination paper should be avoided. Most candidates failed the paper because they prepared well in some areas and poorly in other areas. The Institute should consider organizing more intervention programmes across the country for prospective candidates using its experienced staff.

Candidates should be educated on the need to adopt proper time management strategy during the examination. Finally, candidates should be educated on the proper use of the examination booklets.