NOVEMBER 2016 PROFESSIONAL EXAMINATIONS
FINANCIAL REPORTING (PAPER 2.1)
CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME

EXAMINER'S GENERAL COMMENT

The standard of the questions was better and could be compared to those of the earlier years administered. With the exception of Question 2 which was based mainly on the Standards the rest of the questions were also of the required standard. However, the volume of work required was quite involving, looking at the time allocated to the paper. The questions covered all the relevant sections of the syllabus and reflected the weighting of the topics in the syllabus, and it followed a similar pattern in the previous exams. No errors were noted in the paper.

The model answers and the marking schemes adopted were good. An alternative presentation to the consolidation in question one and an amendment to the Fixed Assets schedule in question three were presented to avoid any student being disadvantaged.

The standard of the paper was good except that the workings were on the high side in all the questions. The mark allocation followed the weightings in the syllabus.

PERFORMANCE OF CANDIDATES

More than 80% of the candidates scored less than 35% of the total marks while a few candidates scored as low as 12%. This could be attributed to inadequate preparation by candidates, or the low standard achieved in their previous levels of studies. The general performance of the candidates was far below average.

The high level of performance from candidates was concentrated in Kumasi. The low performers were in the rest of the regional centres and the low performers were concentrated in the rest of the regional centres including Accra.

There were no signs of copying. The level of preparedness of candidates for the exams was low and this reflected in their poor performance.

NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES

Candidates who prepared adequately and were ready for the examinations scored above 50% of the total marks. Only a few candidates scored above 60% of the total marks. The candidates' strengths were in the preparation of the Statement of Profit or Loss and Financial Position as in question three, Consolidation in question one and Ratio analysis in question four. These are areas which any serious candidate will not like to ignore while preparing for the exams. Suggested areas in which such strengths can be enhanced include the International Financial Reporting Standards and Partnership Accounting.

The general weaknesses shown were in respect of either lack of preparation or the background of most of the candidates entering the examinations at this level. These weaknesses were widespread as could be seen in the general performance.

The reasons for the weaknesses shown were in respect of lack preparation and lack of the basic foundational knowledge for most of the candidates entering the examinations at this level.

FINANCIAL REPORTING QUESTIONS

QUESTION ONE

a) Bantama Ltd acquired six million of Abrepo Ltd's ordinary shares on 1 April 2016 for an agreed consideration of GH¢25 million. The consideration was settled by a share exchange of five new shares in Bantama Ltd for every three shares acquired in Abrepo Ltd, and a cash payment of GH¢5 million. The cash transaction has been recorded, but the share exchange has not been recorded.

The draft statements of financial position of the two companies as at 30 September 2016 are:

	Bantama Ltd	Abrepo Ltd
	GH¢'000	**GH¢'000**
Non-current Assets		
Property, Plant & Equipment	78,540	27,180
Investments in Abrepo	5,000	-
	83,540	27,180
Current Assets		
Inventories	7,450	4,310
Trade and other receivables	12,960	4,330
Cash and cash equivalents	-	520
	20,410	9,160
Total Assets	**103,950**	**36,340**
Equity & Liabilities		
Equity		
Share Capital (GH¢1 ordinary shares)	20,000	8,000
10% Preference Share	10,000	
Retained Earnings:		
At 1 October 2015	51,260	6,000
For the year to 30 September 2016	13,200	8,800
	94,460	22,800
Non-current liabilities		
8% Loan notes	-	8,000
Current liabilities		
Accounts Payable	5,920	4,160
Bank Overdraft	1,700	-
Provision for taxation	1,870	1,380
	9,490	5,540
Total Equity & Liabilities	**103,950**	**36,340**

Additional information

i) The fair value of Abrepo Ltd's land at the date of acquisition was GH¢4 million in excess of its carrying value. Abrepo Ltd's financial statements contain a note of a contingent asset for an insurance claim of GH¢800,000 relating to some inventory that was damaged by a flood on 5 March 2016. The insurance company is disputing the claim. Bantama Ltd has taken legal advice on the claim and believes that it is highly likely that the insurance company will settle it in full in the near future.

ii) At the date of acquisition Bantama Ltd sold an item of plant that had cost GH¢2 million to Abrepo Ltd for GH¢2.4 million. Bantama Ltd has charged depreciation of GH¢240,000 on this plant since it was acquired.

iii) Bantama Ltd's current account debit balance of GH¢820,000 with Abrepo Ltd does not agree with the corresponding balance in Abrepo Ltd's books. Investigations revealed that on 26 September 2016, Bantama Ltd charged Abrepo Ltd GH¢200,000 for its share of central administration costs. Abrepo Ltd has not yet recorded this invoice. Intercompany current accounts are included in accounts receivable or payable as appropriate.

iv) Abrepo Ltd paid a dividend of GH¢400,000 on 30 September 2016. The profit and dividend of Abrepo Ltd are deemed to accrue evenly throughout the year. Abrepo Ltd's retained earnings of GH¢8.8 million for the year to 30 September 2016 as shown in its statement of financial position is after the deduction of the dividend. Bantama Ltd's policy is to credit to income only those dividends received from post-acquisition profits. Bantama Ltd has not yet accounted for the dividend from Abrepo Ltd. The cheque has been received but not banked.

v) At the year-end an impairment review was carried out on the consolidated goodwill arising on the acquisition of Abrepo Ltd, and an impairment loss of GH¢595,000 was identified. No adjustment has yet been made for this. It is group policy to value non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's identifiable net assets.

Required:
Prepare the consolidated statement of financial position of Bantama Ltd group as at 30 September 2016. **(17 marks)**

b) **IFRS 10 *Consolidated Financial Statements*** outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities it controls.

Required:
Explain and justify how **IFRS 10 *Consolidated Financial Statements*** determines elements of control of an investor over investee.

(3 marks)

(Total: 20 marks)

QUESTION TWO

a) You are employed as the Financial Accountant for Asokwa Ltd. Asokwa Ltd leased a new piece of equipment from Amakom Ltd for three years commencing on 30 September 2014. The fair value of the equipment is GH¢70,000. A deposit of GH¢4,000 was payable on 30 September 2014 followed by six half-yearly payments of GH¢13,500, payable in arrears, and commencing on 31 March 2015. Asokwa Ltd allocates finance charges on a sum of the period digits basis.

Required:
Prepare financial statement extracts showing how the lease transaction of Asokwa Ltd should be treated for the year ended 31 December 2014. **(6 marks)**

b) According to ***IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors***, an entity must select and apply its accounting policies consistently from one period to the next and among various items in the financial statements. However, an entity may change its accounting policies under certain conditions.

Required:
Identify the circumstances under which it may be appropriate to change accounting policy in accordance with the guidance given in ***IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*****.** **(2 marks)**

c) Tanoso owns the following properties as at 31 December 2015:

Property:	**Fair value (GH¢million)**
Land with future use undetermined	3.2
Factory rented to Tanoso's subsidiary under an operating lease	2.4
10 floor office building (fair value is equal per floor) with 3 floors used as the subsidiary's head office and seven floors rented to third parties under an operating lease.	15.0
Empty building held for capital appreciation, but not leased out.	4.1

Tanoso's accounting policy is to hold its investment properties under the fair value model and its land and buildings under the revaluation model.

Required:
In accordance with ***IAS 40 Investment Property*** calculate the carrying amount to be recognised as investment property in Tanoso's consolidated financial statements as at 31 December 2015. **(3 marks)**

d) Suame Ltd is a listed telecommunication company which prepares its financial statements for the year ended 31 October, 2015 in accordance with IFRS. The financial statements are due to be authorised for issue on 15 January 2016.

i) Suame Ltd holds an investment in the shares of a listed company, Asafo Ltd. During November 2015 there was a material fall in the value of Asafo Ltd’s shares. Analysts attribute the fall in value principally to a fraud dating back to December 2014 that was discovered by Asafo Ltd's management and announced publicly in November 2015.

ii) In December 2015, the directors of Suame Ltd publicly announced a plan to reduce the workforce by 10% as a result of worsening economic conditions.

Required:
Discuss the effects of each of the above items on the financial statements of Suame Ltd for the year ended 31 October 2015 in accordance with ***IAS 10 Events after the Reporting Period.***
(4 marks)

e) Sofoline Ltd has a plant which cost GH¢40,000 and was purchased on 1 January 2013 with a useful life of 10 years. The plant was being used as part of its business operating capacity. On 30 June 2015, Sofoline Ltd made a decision to classify the plant as held for sale and an agent was appointed for the sale of the plant that have started advertising the plant at a selling price of GH¢29,000 which was considered to be its fair value. The selling expenses are estimated to be GH¢1,500. The asset has not yet been sold by the year end of 31 December 2015 and it has a fair value less cost to sell of GH¢24,000 on this date.

Required:
Discuss how this will be accounted for in the financial statements of Sofoline Ltd for the year ended 31 December, 2015 in accordance with ***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations***. **(5 marks)**

(Total: 20 marks)

QUESTION THREE

The following is the trial balance of Kwadaso Ltd, a trading company, as at 30 September 2015:

	Debit	Credit
	GH¢'000	GH¢'000
Sales		68,865
Inventory	3,150	
Cost of sales	35,500	
Selling & distribution expenses	5,600	
Administration expenses	8,540	
Loan Note interest paid	110	
Bank interest	85	
Investment income		360
Leasehold building at valuation-1 Oct 2014	14,000	
Plant and equipment– cost/depreciation	13,750	3,200
Computer equipment– cost/depreciation	7,200	2,000
Motor vehicles – cost/depreciation	1,500	400
Available-for-sale investments	8,700	
Trade receivables	9,200	
Bank		910
Trade payables		3,400
Deferred tax – 1 Oct 2014		2,300
500,000 Ordinary shares		14,500
8% Loan notes (2012 – 2016)		2,500
10% Preference shares (redeemable)		3,000
Revaluation surplus		800
General reserve		1,500
Retained earnings – 1 Oct 2014		3,600
	107,335	**107,335**

Additional information:

i) On 31 March 2015 the company made a bonus issue from retained earnings of one new share for every four shares in issue at GH¢ 10.00 each. This transaction is yet to be recorded in the books.
The company paid ordinary dividends of GH¢2.2 per share on 31 January 2015 and GH¢2.6 per share on 30 June 2015. The dividend payments are included in administrative expenses in the trial balance.

ii) Provision is to be made for a full year's interest on the Loan notes.

iii) The finance charge relating to the preference shares is equal to the dividend payable.

iv) **Non-current assets:**

- Depreciation of Property, plant and equipment is to be provided on the following bases:
  Plant and equipment 10% on cost

Computer equipment	25% on cost
Motor vehicles	20% on reducing balance

- No depreciation has yet been charged on any non-current asset for the year ended 30 September 2015.
- Kwadaso revalues its buildings at the end of each accounting year. At 30 September 2015 the relevant value to be incorporated into the financial statements is GH¢14,100,000.
- The building's remaining life at the beginning of the current year (1 October 2014) was 25 years. Kwadaso does not make an annual transfer from the revaluation reserve to retained earnings in respect of the realisation of the revaluation surplus. Ignore deferred tax on the revaluation surplus.

v) The available-for-sale investments held at 30 September 2015 had a fair value of GH¢ 8,400,000. There were no acquisitions or disposals of these investments during the year.

vi) In February 2015, Kwadaso's internal audit unit discovered a fraud committed by the company's credit manager who did not return from a foreign business trip. The outcome of the fraud is that GH¢500,000 of the company's trade receivables have been stolen by the credit manager and are not recoverable. Of this amount, GH¢200,000 relates to the year ended 30 September 2014 and the remainder to the current year. Kwadaso is not insured against this fraud.

vii) Corporate income tax payable estimated on the profit for the year is GH¢3,500,000. An amount of GH¢1,200,000 is to be transferred to the deferred taxation account.

Required:

Prepare the following financial statements of Kwadaso Ltd for publication in accordance with ***International Financial Reporting Standards (IFRS):***

a) Statement of profit or loss and other comprehensive income for the year ended 30 September 2015;

b) Statement of changes in equity for the year ended 30 September 2015; and

c) Statement of financial position as at 30 September 2015.

d) Show clearly all relevant workings.

(Note: Accounting policy notes are not required)

(20 marks)

QUESTION FOUR

a) You are a private consultant for Ashtown Ltd, a listed company in Ghana operating in the manufacturing sector. Below is a Statement of financial position and a summarized statement of changes in equity with comparatives for the year ended 31 December 2015**.**

Statement of Financial Position as at 31 December 2015:

	2015	**2014**
	GH¢	**GH¢**
Non-Current Assets		
Property, Plant & Equipment	200,000	250,000
Research & Development	40,000	-
	240,000	250,000
Current Assets		
Available For Sale Investments	12,000	20,000
Inventory	70,000	45,000
Debtors	30,000	23,000
Cash and Cash equivalents	18,000	17,000
	130,000	105,000
	370,000	**355,000**
Equity		
Equity Share Capital (GH¢1 per Share)	150,000	100,000
10% Preference Share Capital	50,000	50,000
Retained Earnings	60,000	55,000
	260,000	205,000
Non-Current Liabilities		
Interest-bearing borrowing	50,000	90,000
Deferred Tax	5,000	3,000
	55,000	93,000
Current Liabilities		
Trade & Other Payables	30,000	20,000
Bank Overdraft	25,000	37,000
	55,000	57,000
	370,000	**355,000**

Summarised Statement of Changes in Equity

	2015	**2014**
	GH¢	**GH¢**
Opening Balance	205,000	165,000
Profit for the period	65,000	45,000
Less Dividends	10,000	5,000
	260,000	**205,000**

Additional Information:	**2015**	**2014**
	GH¢	**GH¢**
Sales	365,000	219,000
Cost of Sales	219,000	156,000
Income Tax Expense	17,000	8,000
Finance Cost	9,000	6,000

Industry Ratios

Current Ratio:	2.0 times
Debt to Equity Ratio:	50%
Gross Profit Margin:	32%
Net Profit Margin**:**	20%
Return on Capital Employed:	22%

Required:

Prepare a report and address to the Chief Executive Officer, analyzing the financial performance and financial position of Ashtown Ltd based on the industry ratios above for the years 2014 and 2015. **(12 marks)**

b) Krofrom Ltd is also a listed company operating in the manufacturing sector in Ghana. The non-current asset turnover ratio of Krofrom Ltd for the year 2015 is 1.3. Compute the non-current asset turnover ratio for Ashtown Ltd and explain **TWO** reasons, why these ratios may not provide a **good comparison** of the efficiency of the entities.

(3 marks)

(Total: 15 marks)

QUESTION FIVE

a) Santasi and Patasi are in partnership sharing profits and losses in the ratio 3:2. They decided to amalgamate their firm with that of another partnership Bremang and Asafo as at 30 June 2015. Bremang and Asafo share profits and losses in the ratio 2:1.

The following were their statement of financial position as at that date:

	Santasi & Patasi GH¢'000	Bremang & Asafo GH¢'000
Non-current assets		
Buildings	11,000	-
Plant & equipment	9,000	8,100
	20,000	8,100
Current assets		
Inventory	8,000	10,080
Trade receivables	5,500	5,040
Bank	6,000	-
	19,500	15,120
Total assets	**39,500**	**23,220**
Liabilities and equity		
Trade payables	9,500	9,720
Bank overdraft	-	2,700
	9,500	12,420
Capital accounts		
Santasi	20,000	-
Patasi	10,000	-
Bremang	-	6,300
Asafo	-	4,500
	30,000	10,800
Total Liabilities and equity	**39,500**	**23,220**

Additional information:

The terms of the amalgamation which was concluded by 30 June 2015 were as follows:

i) Profits and losses were to be shared in the ratio of Santasi: Patasi: Bremang: Asafo = 2:2:1:1 respectively.

ii) The values of goodwill of the two firms were agreed to be valued at two year's purchase of the average profits of the last four accounting years to the year of amalgamation. No goodwill account is to be maintained in the books.

Profits of the firms for the past five years ending 30 June are as follows:

Year	2015	2014	2013	2012	2011
Santasi & Patasi (GH¢'000)	1,050	910	1,020	950	800
Bremang & Asafo (GH¢'000)	910	820	670	450	320

iii) The new firm was to take over all the assets and liabilities of Santasi and Patasi. The following assets of Santasi and Patasi were revalued: buildings GH¢14,400,000; plant and equipment GH¢10,400,000; inventory GH¢8,500,000; trade receivables GH¢5,000,000.
iv) The new firm was to take over all the assets and liabilities of Bremang and Asafo at the following agreed values: plant and equipment GH¢9,500,000; inventory GH¢9,900,000; trade receivables GH¢4,900,000.
v) The capital of the new firm was to be GH¢60,000,000, contributed according to their profit and loss sharing ratio. The balance due to or from the partners will be settled through the bank account of the new firm.

Required:

i) Prepare Realisation account in the books of each of the old firms as at 30 June 2015.
ii) Prepare the partners' capital accounts in a columnar form, for the period to 1 July 2015.
(15 marks)

b) **The IASB's conceptual framework** for financial reporting states that the qualitative characteristics of financial statements are the attributes that make financial information useful**.**

Required:

Explain the fundamental qualitative characteristic **"*Relevance".*** **(2 marks)**

c) Compare the general principles underlying ***Current Purchasing Power (CPP)*** accounting and ***Current Cost Accounting (CCA).*** **(3 marks)**

d) ***Recognition*** in financial reporting is the process of incorporating into the financial statements an item that meets the definition of an element of financial statements and satisfies specified criteria.

Required:

State the ***criteria for recognition*** of an element of financial statements in financial reporting. **(2 marks)**

e) It is widely argued that global harmonization of financial reporting standards will bring about uniformity in financial reporting and ensure consistency and comparability in published financial information by enterprises. However there are some barriers to global harmonization.

Required:

Explain any **THREE** barriers to global harmonization of financial reporting standards.
(3 marks)

(Total: 25 marks)

FINANCIAL REPORTING SCHEME

QUESTION ONE

Bantama Group
Consolidated statement of financial position as at 30th September 2016

Non-Current Assets	**GHS000**	**GHS000**
Property, plant & equipment (78,540 +27,180 + 4,000-400+240)		109,560
Good will (w3)		6,855
Current Assets		
Inventories (7,450 + 4,310)	11,760	
Trade Receivables (12,960 +4,330-820)	16,470	
Insurance claim	800	
Cash & Cash equivalents (520 + 300)	820	
		29,850
Total assets		146,265
Financed by:		
Ordinary Share Capital (20,000 + 20,000)		40,000
10% Preference shares		10,000
Retained earnings (W4)		66,945
		116,945
Non-Controlling Interest (W5)		6,910
Non-Current Liabilities		
8% loan notes		8,000
Current Liabilities		
Trade payables (5,920 4,160-620)	9,460	
Taxation (1,870 +1,380)	3,250	
Bank overdraft	1,700	14,410
		146,265

Workings

1) Group structure

Bantama

(6m/8m x100)	Date of acquisition/ control: 01/04/2013
75% control	Date of reporting: 30/09/2016
25% NCI	Post-acquisition period: 6 months

Abrepo

2) Net Assets of Abrepo:

	Acquisition date 01/04/2016 GHS'000	**reporting date 30/09/2016 GHS'000**	**post acquisition retained earnings GHS'000**
Ordinary Share capital	8,000	8,000	_
Retained earnings: (6000 +6/12 x8800)	10,400	14,800	4,400 (6/12 x 8,800)
Fair value of adj. Land	4,000	4,000	
Fair value of adj. ince	800	800	
Central administration charge		(200)	(200)
Excess depreciation- (pup on nca)		240	240
	23.200	27,640	4,440

Or Post acquisition retained =27640-23,200 = GHS4,440

3) Goodwill computation

	GHS'000
Cost of Investment	25,000
Pre-acquisition dividend (400 x6/12) x75%)	(150)
Less: Net Assets at acquisition w2 (23,200 x75%)	(17,400)
Total Goodwill	7,450
Less impairment loss	(595)
Goodwill at consolidation	6,855

OR

Goodwill computation

	GHS'000
Cost of Investment:	
Cash	5,000
Share exchange 6m x 5/3) xGHS2	20,000
	25,000
Pre-acquisition dividend (400 x6/12) x75%)	(150)
NCI share (25% x 23,200)	5,800
Less: Net Assets at acquisition	(23,200)
Total Goodwill	7,450
Less impairment loss	(595)
Goodwill at consolidation	6,855

4) Consolidated income surplus

	GHS'000
Balance at 30/09/16	64,460
Goodwill impairment	(595)
PUP (2m-2.4m)	(400)
Div. from Abrepo	150
Group share of post-acquisition profit w2 (4,440 x75%)	3,330
At consolidation	66,945

5) Non-Controlling interest

	GHS'000
NCI's share of net assets at reporting (25% x 27,640)	6,910

OR Non-Controlling interest

	GHS'000
NCI's share of net assets at reporting (25% x 23,200)	5,800
Add: NCI's share of post-acquisition profit (25% x 4,440)	1,110
	6,910

6) Pre-acquisition dividend

Total dividend: GHS400,000
Group share (post acquisition): GHS400,000 × 6/12 × 75% = GHS150,000
∴ Pre-acquisition group share of dividend = **GHS150,000**

7) Elimination of current accounts

	Dr GHS'000	Cr GHS'000
Intragroup charge	200	
Accounts payable	620	
Accounts receivable		820

8) Ordinary shares

No of shares Bantama acquired in Abrepo = 6m
∴ No. of shares issued =6m * 5/3 = 10m

	GHSm
Proceeds of issue:	
Total consideration	25
Cash consideration	(5)
∴Proceeds for shares	**20**

∴ Share capital will increase by GHS20m.

(17 marks)

b) An investor controls an investee if and only if the investor has all of the following elements:

- power over the investee, i.e. the investor has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee's returns)
- exposure, or rights, to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect the amount of the investor's returns. **(3 points for 3 marks)**

(Total: 20 marks)

EXAMINER'S COMMENT

Most candidates scored less than 50% of the total marks. The Consolidated Financial Position could have been a bonus question and candidates could have scored the maximum marks but most of them failed woefully. The preparation of the Consolidated Retained Earnings Account, the calculation of the Net Assets, Goodwill and Non-Controlling Interest were poorly handled. However a few candidates scored more than 50% of the total marks allocated showing their preparedness.

Most candidates were able to explain and justify how the IFRS 10 determines the elements of control of an investor over the investee.

QUESTION TWO

a) Lease

Calculation of finance charge	**GHS**
Deposit	4,000
Lease payments (6 X GHS13,500)	81,000
Fair value of asset	(70,000)
Finance charges in total	15,000

Interest calculation

Sum of Digits = $\frac{n(n+1)}{2}$

= (6 x 7)/2 = 21

Period ended		**GHS**
31 March 2015	6/21 x 15,000	4,286
Of which to 31 December 2014	3/6	2,143
30 September 2015	5/21 x 15,000	3,571
31 March 2016	4/21 x 15,000	2,857
30 September 2016	3/21 x 15,000	2,143

Liability

	b/f	**Interest**	**Payment**	**Capital**
31 December 2014	66,000	2,143	0	68,143
31 March 2015		2,143	(13,500)	56,786
30 September 2015	56,786	3,571	(13,500)	46,857
31 December 2015	46,857	1,429	0	48,286
31 March 2016	48,286	1,428	(13,500)	36,214
30 September 2016	36,214	2,143	(13,500)	24,857

Total liability at 31 December 2014 = 68,143
Capital > 1 year = GHS48,286 (due 31 December 2013)
Due < 1year = GHS19,857 (balancing figure)
GHS68,143

Statement of profit or loss and other comprehensive income for the year ended 2014

Depreciation	
70,000/3 * 3/14	(GHS5,833)
Finance charge	(GHS2,143)

Statement of financial position as at 31 December 2014

Non-current assets	
70,000- 5,833	GHS64,167
Current liabilities	
Finance lease liabilities	GHS19,857
Non-current liabilities	
Finance lease liabilities	GHS48,286

(6 marks)

b) **Change of accounting policy**

Under IAS 8 it is appropriate to change accounting policy in **two situations**.

- If a new standard or interpretation requires a change form an existing policy, and
- If a different policy would produce financial statements that are more relevant than the existing policy. In other words, the proposed policy would result in financial statements that reflect the financial position and performance of the entity more fairly.

(2 points for 2 marks)

c)

	GHS'm
Land with future use undetermined	
– capital appreciation by default (IAS 40 para 8(b))	3.2
Factory rented to Tanoso's subsidiary under an operating lease	
– treated as owner occupied in the consolidated financial statements	–
10 floor office building – proportional approach is valid (10 x 7/10 x 1.5m) 10.5	
Empty building held for capital appreciation, but not let	
– investment property is for capital appreciation **and/or** rental income	4.1
	17.8

(3 marks)

d) i) The fall in value relates to conditions that arose after the end of the reporting period. Therefore, the fall in value is a non-adjusting event after the reporting period.
Whilst the effect of the fraud may be an adjusting event in Asafo Ltd's own financial statements, it is not an adjusting event for the value of the company's shares on the stock market as that market value was based on all information available at that time (for example investors who purchased shares on 31 December at the market price on that date would not be able to make a claim against the previous owner when the fraud was discovered).

In accordance with IAS 10, which requires disclosure of material non-adjusting events after the reporting period, disclosure will be made of:

- the nature of the event
- the amount of the financial effect, ie fall in value **(2 marks)**

ii) The announcement of plans to restructure creates a constructive obligation to do a restructuring. As a result, a restructuring provision will be recognised from that date, providing the IAS 37 criteria are met. However, no legal or constructive obligation existed to restructure at the 31 October 2015 year end and this is therefore a non-adjusting event after the reporting period.
In accordance with IAS 10, which requires disclosure of material non-adjusting events after the reporting period, disclosure will be made of:

- The nature of the event
- The amount of the financial effect, ie the expected restructuring costs. **(2 marks)**

e) As the plant appears to have met the criteria to be classified as held for sale on 30 June 2015, it will be classified as held for sale on 30 June 2015at lower of:
Carrying value on the date of classification
Its fair value less cost to sell on the same date

Working (31/12/2015)	GHS
Cost	40,000
Less Accumulated Dep. (GHS40,000/10 years) × 2	(8,000)
Carrying value at 1.1.2015	32,000
Less Current Yr. Dep. (6 months) (GHS4,000 × 6/12)	(2,000)
Carrying value at 30.6.2015	30,000
Impairment loss at 30.6.2015	(2,500)
Fair value less cost to sell at 30.6.2015 (GHS29,000 - GHS1,500)	27,500
Further impairment loss at 31.12.2015	(3,500)
Fair value less cost to sell at 31.12.2015	**24,000**

If fair value less cost to sell is lower than the carrying value of asset on the date of classification the difference will be impairment loss.The asset classified as held for sale is not depreciated after being classified as held for sale.The asset will be presented separately from other assets, as a separate line item in the statement of financial position under current assets at **GHS24,000.**

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Most of the candidates could not apply their understanding of the issues raised in the various IFRS statements given. This resulted in the loss of vital marks. Some of them never attempted question two at all.

The preparation of the Extracts of Financial Statements of Profit or Loss and Position were not well handled as candidates could not determine the Cost, Finance Charge and depreciation of the asset.

Only a few candidates were able to score the maximum marks by identifying the circumstances under which it is appropriate to change accounting policy in accordance with IAS 8.

The calculation of the carrying amount to be recognised in a consolidated financial statement in accordance with IAS 40 was as usual a challenge and only a few candidates attempted the question satisfactorily. Most of them never attempted it.

Most of the candidates could not identify the issues as non-adjusting events under IAS 10, Events after Reporting period and therefore lost the marks.

This was another poorly attempted question. Candidates could not discuss how to account for in the Financial Statements Non- Current Assets held for Sale and Discontinued operations, IFRS 5.

QUESTION THREE

Kwadaso Limited

Statement of profit or loss and other comprehensive income for the year ended 30 September 2015

	GHS'000
Revenue	68,865
Cost of sales	(35,500)
Gross profit	33,365
Other income	360
Selling & distribution expenses	(5,600)
Administration expenses	(10,070)
Finance costs (W4)	(585)
Profit before tax	17,470
Income tax expense	(4,700)
Profit for the year	12,770
Other comprehensive income	
Loss on available-for-sale investments (8,700 - 8,400)	(300)
Gain on revaluation of buildings	660
Total other comprehensive income for the year	360
Total comprehensive income	**13,130**

Kwadaso Limited

Statement of changes in equity for the year ended 30 September 2015

	Share capital	**Retained earnings**	**Revaluation surplus**	**General reserve**	**Total**
	GHS'000	GHS'000	GHS'000	GHS'000	GHS'000
Balance b/d	14,500	3,600	800	1,500	20,400
Prior period adjustment (re fraud)		(200)			(200)
Bonus issue	1,250	(1,250)			-
Profit for the year		12,770			12,770
Dividends		(2,725)			(2,725)
Comprehensive income			660	(300)	360
	15,750	12,195	1,460	1,200	30,605

Kwadaso Limited

Statement of financial position as at 30 September 2015

	GHS'000	GHS'000
Assets		
Non-current assets		
Property, plant & equipment		27,555.00
Available-for-sale investments		8,400.00
		35,955.00
Current assets		
Inventory	3,150.00	
Trade receivable (9,200 - 500)	8,700.00	11,850.00
Total assets		**47,805.00**
Equity and liabilities		
Equity		
Share capital		15,750.00
Retained earnings		12,195.00
Revaluation surplus		1,460.00
General reserve		1,200.00
		30,605.00
Non-current liabilities		
8% Loan notes (2012 – 2016)	2,500.00	
10% Preference shares (redeemable)	3,000.00	
Deferred taxation	3,500.00	9,000.00
Current liabilities		
Bank overdraft	910.00	
Trade payables	3,400.00	
Interest payable (90 + 300)	390.00	
Corporate income tax payable	3,500.00	8,200.00
		17,200.00
Total equity and liabilities		**47,805.00**

Workings

		Number	GHS'000
1)	Bonus issue		
	Existing no. of shares	500.00	
	Shares issued	125.00	1,250.00
	Total no. of shares after the bonus issue	625.00	
	Dividends paid		
	The dividend of GHS2.2 per share on 31 January 2015 would be based on 500,000 amounting to		1,100.00

	The dividend of GHS2.6 per share on 30 June 2015 would be based on 625,000 amounting to	1,625.00
	Therefore the total dividends paid, incorrectly included in administrative expenses, were	2,725.00

2)	Admin expenses	GHS'000
	Per trial balance	8,540.00
	Less dividends paid	(2,725.00)
	Depreciation charges (w 5)	3,955.00
	Fraud	300.00
		10,070.00

3)	Interest on loan notes	Interest GHS'000
	Total (8% x 2,500)	200
	Amount paid	110
	Amount due	90

4)	Finance cost	
	10% Preference shares (redeemable) (10% x 3,000)	300
	8% Loan notes (W3)	200
	Bank interest	85
		585

5)	Property, plant & equipment	GHS'000
	Depreciation charges	
	Plant and equipment ((10% x 13,750))	1,375
	Building (14,000/25)	560
	Computer equipment (25% x 7,200)	1,800
	Motor vehicles (20% x (1,500-400))	220
		3,955

The gain on revaluation and carrying amount of the building will be:

Valuation – 1 Oct 2014		14,000	
Building depreciation (w5)		(560)	
Carrying amount before revaluation		13,440	
Revaluation – 30 Sept 2015		14,100	
Gain on revaluation		660	
	Cost	**Acc dep**	**NBV**
Buildings			14,100
Plant and equipment	13,750	4,575	9,175
Computer equipment	7,200	3,800	3,400
Motor vehicles	1,500	620	880
			27,555

6) Income tax

	GHS'000
Provision for the year	3,500
Deferred taxation	1,200
Charge for the year	**4,700**

(Total: 20 marks)

EXAMINER’S COMMENTS

The approach to the preparation of a financial Statement for publication was far below expectation even though a few scored the maximum marks. The question was also very involving due to the number of adjustment entries required to be passed.

QUESTION FOUR

APPENDIX

i) Current Ratio= Currents Assets/Current Liability
ii) Debt to Equity= Debt/Equity*100
iii) Gross Profit Margin= Gross Profit/Sales * 100
iv) Net Profit Margin= Net Profit/Sales * 100
v) Return on Capital Employed= Profit before Interest & Tax/Capital Employed*100

	2015	2014	Industry
Current Ratio	GHS130,000/GHS55,000	GHS105,000/GHS57,000	2 times
	2.36 times	**1.84 times**	
Debt/Equity Ratio	GHS50,000/GHS260,000 *100%	GHS90,000/GHS205,000 * 100%	50%
	19.2%	**43.9%**	
Gross Profit Margin	(GHS365,000-GHS219,000)/ GHS365000 * 100%	(GHS219,000-GHS156,000)/ GHS219000 * 100 %	32%
	40%	**28.77%**	
Net Profit Margin	(GHS65,000+GHS17,000+ GHS9,000) /GHS365,000 * 100%	(GHS45,000+GHS8,000+6,000) /GHS219,000 * 100%	20%
	24.93%	**26.94%**	
Return on Capital Employed	(GHS65,000+GHS17,000+ GHS9,000)/(GHS370,000- GHS55,000)	(GHS45,000+GHS8,000+ GHS6,000)/(GHS355,000- GHS57,000)	22%
	28.88%	**19.80%**	

(2 marks)

a) **REPORT**

To: Chief Executive Officer
From: Consultant
Date: 31/12/2015
Subject: Financial Performance and Financial Position of Ashtown Ltd for the year ending 2015.

As requested, I have analyzed the financial performance and financial position of Ashtown Ltd. My analysis is based on the Statement of financial Position, summarised statement of changes in equity and the additional information given. A number of key measures have been calculated and these are set out in the attached Appendix.

(1 mark)

Financial Performance

Financial performance is a quantitative measure of how well a firm can use assets from its primary mode of business and generate revenues using the financial statements. This can be measured using Gross Profit Margin, Net Profit Margin and Return on Capital Employed according to the Industry measures**.**

Gross profit margin measures Ashtown Ltd's manufacturing and distribution efficiency during the production process. Gross profit margin has increased considerably (from 28.77% to 40%) during the year and this is great increment compared to the industry average of 32%**. This High gross profit margin increment** indicates that the company can make a reasonable profit, as long as it keeps the overhead cost in control. The company can improve this by cutting down cost of manufacturing and increasing sales.

Net profit margin measures company's profitability or how much of each Ghana Cedi earned by the company is translated into net profits. Net profit margin is an indicator of how efficient a company is and how well it controls its costs. The higher the margin is, the more effective the company is in converting revenue into actual profit. The company did well in the previous year (26.94% compared to the industry average of 20%) doing better than the industry average. Although Ashtown Ltd's Gross Profit margin increased considerably, there was a marginal fall in net profit margin in the current year (24.93%). The company should adopt cost reduction techniques to cut down the operational, administrative and selling expenses so as to increase profitability.

The Return on Capital Employed ratio helps assess how efficiently a company employs its available capital and is particularly helpful when comparing profitability across companies in the same business with similar amounts of working capital. From the ratios for every GHS1 employed, Ashtown gained GHS0.28 in 2015. Ashtown Ltd's ROCE ratio is relatively high, (an improvement from 19.8% to 28.88%) that is commonly interpreted as an indication that the company is making more efficient use of its capital. The Company can improve the ROCE ratio in subsequent years by selling off of unprofitable or unnecessary assets this can be evidenced from disposing part of the available for sale instrument in the financial statements.

(5 marks)

Financial Position

The status of the assets, liabilities, and owners' equity (and their interrelationships) of an organization, as reflected in its financial statements is the financial position. The financial position helps users to understand the **gearing**, **liquidity** and **value** of the company. This can be measured using Debt to Equity ratio for gearing, and Current Ratio for liquidity looking at the industry averages given**.**

Gearing

The debt to equity ratio measures the ratio of a company's interest bearing debt finance to its equity finance (shareholders' funds). The Debt to Equity ratio indicates how much debt a company is using to finance its assets relative to the amount of value represented in shareholders' equity. This decreased substantially from 43.9% to 19.2% and still lower than the industry ratio. A high debt/equity ratio generally means that a company has been aggressive in financing its growth with debt. Aggressive leveraging practices are often associated with high levels of risk. This may result in volatile earnings as a result of the additional interest expense. It can be evidenced that Ashtown Ltd is not highly geared and it can improve on this by retaining substantial portions of the earnings generated internally. **(1.5 marks)**

Liquidity

Liquidity ratios are a class of financial metrics used to determine a company's ability to pay off its short-terms debts obligations. Generally, the higher the value of the ratio, the larger the margin of safety that the company possesses to cover short-term debts. The **current ratio** is a liquidity ratio that measures whether or not a firm has enough resources to meet its short-term and long-term obligations. Ashtown Ltd has improved from (1.84:1 to 2.36:1) more than the industry average of 2:1. A high current ratio may not always be a green signal. Ashtown Ltd with high current ratio of 2.36 may not always be able to pay its current liabilities as they become due because of a large portion of its current assets consists of slow moving (available for sale instruments and inventories) or obsolete inventories. **(1.5 marks)**

Conclusion

Ashtown Ltd's profit margins appear to be reasonable for a company in its industry sector. Although it's net profit margin is below the industry average. It is possible at least some of this improvement can be achieved by deliberately reducing the operating expenses for the year. There are no apparent gearing or short-term liquidity problems but Ashtown Ltd should find solution of reducing its slow moving short term assets. **(1 mark)**

b) Ashtown Ltd (2015)

Non-Current Asset Ratio = Sales/Non-Current Assets
= GHS365,000/GHS240,000
= 1.52 times.

Krofrom Ltd= 1.3times   Ashtown Ltd =1.52 times   **(1 mark)**

Reasons:

- The non-current assets of one entity could be nearing the end of their useful life and therefore be unrealistically low giving a higher non-current asset turnover figure.
- Alternatively, the non-current assets of one entity could have been revalued which would result in asset turnover being low but not necessarily because of low efficiency. **(2 points for 2 marks)**

(Total: 15 marks)

EXAMINER'S COMMENTS

The computation of the ratios could have been a bonus question but as usual a few candidates handled the question as if it was their first time of coming across a question on ratio analysis. Candidates were able to state the formulae but could not identify the figures from the financial statement given. A few of them went outside the ratios given to calculate and comment on their choice of ratios.

On the presentation of the report, most of them did not relate the trend to the Industry Ratios given.

QUESTION FIVE

a) Santasi, Patasi, Bremang and Asafo

i) Realisation accounts

In the books of Santasi and Patasi

Realisation Account - Santasi & Patasi

		GHS'000		GHS'000
Assets - at book values			Trade creditors	9,500
			Purchaser's account	
Buildings		11,000	(W3)	36,765
Plant & equipment		9,000		
Inventory		8,000		
Trade debtors		5,500		
Bank		6,000		
Capital a/c				
Santasi (3/5 x 12,765)	4,059			
Patasi (2/5 x 12,765)	2,706	6,765		
		46,265		**46,265**

In the books of Bremang and Asafo

Realisation Account - Bremang & Asafo

		GHS'000		GHS'000
Assets - at book values			Trade creditors	9,720
Plant & equipment		8,100	Bank overdraft	2,700
			Purchaser's account	
Inventory		10,080	(W4)	13,305
Trade debtors		5,040		
Capital a/c				
Bremang (2/3 x 2,505)	1,670			
Asafo (1/3 x 2,505)	835	2,505		
		25,725		**25,725**

ii) Partners' capital accounts

Santasi, Patasi, Bremang and Asafo
Partners' capital accounts

	Santasi GHS'000	**Patasi GHS'000**	**Bremang GHS'000**	**Asafo GHS'000**
Opening balance	20,000	10,000	6,300	4,500
Realisation account	4,059	2,706	1,670	835
Goodwill written off (W2)	(1,130)	(1,130)	(565)	(565)
Bank (balancing figure)	(2,929)	8,424	2,595	5,230
Closing balance	20,000	20,000	10,000	10,000

WORKINGS

1) Determination of goodwill

	Santasi & Patasi		**Bremang & Asafo**
Average of profits for last 4 years			
(1,050+910+1,020+950)/4	982.50	(910+820+670+450)/4	712.50
Goodwill - 2 year's purchase	1,965.00		1,425.00
Share of goodwill			
Santasi (3/5 x 1,965)	1,179.00		
Patasi (2/5 x 1,965)	786.00		
Bremang (2/3 x 1,425)			950.00
Asafo (1/3 x 1,425)			475.00

2) Goodwill written off

Santasi (2/6 x 3,390)	1,130
Patasi (2/6 x 3,390)	1,130
Bremang (1/6 x 3,390)	565
Asafo (1/6 x 3,390)	565

3)

In the books of Santasi & Patasi

Purchased consideration

	GHS'000
Goodwill (W1)	1,965
Buildings	14,400
Plant & equipment	10,400
Inventory	8,500
Trade debtors	5,000
Bank	6,000
	46,265
Creditors	(9,500)
	36,765

4)

In the books of Bremang and Asafo

Purchased consideration

	GHS'000
Goodwill (W1)	1,425
Plant & equipment	9,500
Inventory	9,900
Trade debtors	4,900
	25,725
Liabilities (9,720 + 2,700)	(12,420)
	13,305

(15 marks)

b) Relevance

The IASB Framework for the Preparation and Presentation of Financial Statements (IASB Framework) says that information is relevant ―when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations. For accounting information to be relevant, ―accounting information must be capable of making a difference in a decision by helping users to form predictions about the outcomes of past, present, and future events or to confirm or correct expectations, and goes on to define event and outcome.

(2 marks)

c) CPP and CCA

CPP makes adjustments for general inflation whereas CCA allows for specific price movements (changes in the deprival value of assets).

Specific price changes (in CCA) enable a company to determine whether its operating capability has been maintained. The two concepts use different concepts of capital maintenance; namely operating capability with CCA and general purchasing power with CPP. **(3 marks)**

d) The criteria for recognition:

- It is probable that any future economic benefit associated with the item will flow to or from the entity
- The item has a cost or value that can be measured with reliability.

(All 2 points for 2 marks)

e) Barriers to Global harmonization of accounting standards

- Different purposes of financial reporting
- Different legal system
- Different user groups
- Needs of developing countries
- Nationalism demonstrated in the unwillingness to accept another country's standards
- Cultural differences resulting in different objectives for accounting systems
- Unique circumstances
- The lack of strong accountancy bodies

(Any 3 points for 3 marks)

(Total: 25 marks)

EXAMINER'S COMMENTS

The preparation of the Realisation Accounts for the two Partnerships and the workings increased the volume of work compared to the 15 marks allotted to the question. This could have been a bonus question but then a few candidates showed total ignorance in the preparation of realisation accounts. There was enough evidence to show that candidates understood what was required, since there were no material deviations.

CONCLUSION

Candidates presented wrong or contrary answers mainly because they did not know the expected answers. This situation was just too common which reflected in their poor performance. The poor performance shows that more than 90% of the candidates were ill-prepared for the exams or their previous knowledge in the subject was quite limited.

The academic standard of candidates entering the exams at this level appears to be on the decline hence the poor performance in the subject. Candidates are therefore advised not to take the examinations for granted. They should ensure that they have completed the syllabus and worked through series of questions before registering for the examinations.