NOVEMBER 2017 PROFESSIONAL EXAMINATIONS
FINANCIAL REPORTING (PAPER 2.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

EXAMINER'S GENERAL COMMENTS

The general performance of most of the candidates was below average. It showed that they were not prepared and ready for the examination. They showed lack of understanding of the Accounting Standards and especially the double entry principles. Candidates with high understanding of the Accounting Standards scored high marks especially in questions two and five. The orderly and logical presentation of answers continued to be a challenge to most candidates.

STANDARD OF THE PAPER

The standard of the questions was generally good and could be compared to those of the earlier years administered in terms of volume of adjustments required. The questions covered all the relevant sections of the syllabus. All the questions reflected the weighting of the topics in the syllabus, and the mark allocations followed a similar pattern in the previous exams. There were no ambiguities or typing errors noted in the paper.

Questions one, three and four were without much complications. Questions 2 and 5 (b) and (c) were on the Accounting Standards and the volumes of work required were commensurate with the allotted time and marks. The questions were not too loaded except question five. For instance, in question 5, the number of entries to be passed in respect of the partnership question for a 15 mark question was on the high side.

PERFORMANCE OF CANDIDATES

The general performance of the candidates was far below average. About 60% of the candidates scored less than 35% of the total marks while a candidate scored as low as 4%. The poor performance could be attributed to inadequate preparation by candidates, or the low standard achieved in their previous levels of studies. A few excellent candidates scored more than 70% of the total marks.

The high level of performance by candidates was concentrated in Cape Coast and a few in Accra and Ho. The low performers were concentrated in the rest of the regional centres including Accra where most of the candidates were. There were no signs of copying. The level of preparedness of candidates for the exams was low and it reflected in their poor performance.

NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES

- Candidates who prepared adequately and were ready for the examinations scored above 50% and a few scored more than 70% of the total marks.
- The candidates' strengths were in the preparation of the Consolidated Statement of Financial Statement in question one, correction of errors in question three, and Ratio

analysis in question four. These are areas which any serious candidate would not like to ignore while preparing for the exams.

- Suggested area**s in which such strengths can be enhanced include the International Financial Reporting Standards.**
- 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.
- The weaknesses were widespread as could be seen in the general performance.
- The reasons for the weaknesses shown were in respect of lack of preparation and the basic foundational knowledge for most of the candidates entering the examinations at this level.

QUESTION ONE

Spacefon Ltd (Spacefon) in its quest to gain dominance in the telecommunication industry, bought an 80% holding in the equity of Buzz and 40% of the equity shares of Kasapa Ltd (Kasapa) on 1 July 2017. The purchase price of the investment of Buzz Ltd (Buzz) was agreed at GH¢4,400 million, of which GH¢1,600 million was paid in cash. The remaining balance was paid by issuing 800 million equity shares each of GH¢1 nominal value to the seller at their then fair value of GH¢3.50 each. The 20% non-controlling interest in Buzz had a fair value of GH¢900 million at that date. Buzz's net assets had a fair value of GH¢4,700 million on 1 July 2017. Spacefon applies the fair value method to calculate goodwill on acquisition.

The following statements of comprehensive income relate to Spacefon and its investee companies, Buzz and Kasapa.

Statements of Profit or Loss account for the year ended 31 October 2017

	Spacefon Ltd GH¢million	**Buzz Ltd GH¢million**	**Kasapa Ltd GH¢million**
Revenue	4,428	2,448	1,530
Cost of Sales	(1,674)	(864)	(680.4)
Gross profit	2,754	1,584	849.6
Operating expenses	(1,116)	(828)	(522)
Finance costs	(180)	(108)	(54)
Other income	32.4	-	-
Investment income	129.6	-	-
Profit before taxation	1,620	648	273.6
Taxation	(270)	(108)	(54)
Profit for the year	1,350	540	219.6
Other comprehensive income			
Gains on revaluations of property	226.8	72	64.8
Total comprehensive income for the year	**1576.8**	**612**	**284.4**

The following additional information is provided:

i) Included in the fair value of Buzz's net assets on the acquisition date was some machinery owned by Buzz but carried at GH¢90 million below its fair value. The revised fair value was not incorporated into the books of Buzz as Buzz has not adopted a policy of revaluing machinery assets. The useful economic life of this machinery at the acquisition date was estimated to be six years.

ii) During the post-acquisition period, Buzz sold goods to Spacefon for GH¢50 million. These goods were sold by Buzz at a profit of 30 pesewas per every GH¢1 on sales price and 40% of the goods remained in the inventory of Spacefon at 31 October 2017.

iii) Since acquiring its investment in Buzz, Spacefon has managed the administration of the entire group. Spacefon invoiced Buzz GH¢4 million for its share of these costs. Spacefon recorded this transaction within "other income", and Buzz within "operating expenses".

iv) The goodwill of Buzz was reviewed for impairment at 31 October 2017 and was found to have a recoverable amount of GH¢400 million. There was no impairment of the investment in Kasapa.

v) On 1 October 2017, Spacefon sold some land to Kasapa for GH¢12 million, recording a profit of GH¢8 million. This profit is included within "other income" in the books of Spacefon.

(Note: All calculations may be taken to the nearest GH¢0.01 million and assume all expenses and gains accrue evenly throughout the year unless otherwise instructed.)

Required:

a) Calculate the ***goodwill*** arising on the acquisition of Buzz by Spacefon, and the goodwill amount that should appear in the consolidated Statement of Financial Position of Spacefon as at 31 October 2017. **(3 marks)**

b) Prepare a Consolidated Statement of Profit or Loss account for Spacefon Group for year ended 31 October 2017 in accordance with IFRS. **(17 marks)**

(Total: 20 marks)

QUESTION TWO

a) Atta Kay Ltd has the following assets which it would like to classify under ***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*** today:

	Carrying Amount today (GH¢million)	**Open market value today (GH¢million)**	**Estimated selling costs (GH¢million)**
Investment properties (at fair value through profit or loss)	62.3	30.9	0.5
Land used as company car park (held under the revaluation model)	49	50.5	1.0
Trade Receivables	28	24	1.0
Plant (held under the cost model)	14	10	0.5

Required:
Calculate the carrying amount of assets that can be classified as held for sale (assuming the relevant criteria are met where appropriate), after applying the measurement rules of IFRS 5.
(4 marks)

b) Esinam Ltd has the following products in inventory at the end of 2016:

	Units	**Cost per unit GH¢**
Ahomka (completed)	5,400	22
Adonko (part complete)	2,800	26

Each product normally sells at GH¢34 per unit. Due to the difficult trading conditions, Esinam Ltd intends to offer a discount of 15% per unit and expects to incur GH¢4 per unit in selling costs. GH¢10 per unit is expected to be incurred to complete each unit of Adonko.

Required:
In accordance with ***IAS 2 Inventories,*** at what amount should inventory be stated in the financial statements of Esinam Ltd as at 31 December 2016? **(3 marks)**

c) Ayariga Ltd acquired its head office on 1 January 2007 at a cost of GH¢10 million (excluding land). The company's depreciation policy is to depreciate property over 50 years on a straight line basis. Estimated residual value is zero.

On 31 December 2011, Ayariga Ltd revalued the non-land element of its head office to GH¢16 million. In accordance with ***IAS 16 Property, Plant and Equipment*** the company has decided not to transfer annual amounts out of revaluation reserves as assets are used. In January 2017 storm damage occurred and the recoverable amount of the head office property (excluding land) was estimated at GH¢5.8 million.

Required:
In accordance with ***IAS 36 Impairment of Assets,*** recommend (with workings) how the above transaction should be accounted for as at 1 January, 2017. **(5 marks)**

d) Bosco Aluworks Ltd, a manufacturer and supplier of aluminium utensils for households, has recently established a new facility in Kumasi. To help in this new operation, Bosco Aluworks Ltd have secured a number of grants from the Government of Ghana and are unsure how the grants are to be accounted for in the financial statements. The company has a year end of 30 April 2017 and all the following transactions took place at 1 May 2016.

i) Bosco Aluworks Ltd has been awarded a grant for GH¢80,000, to be received over three years, in respect of providing employment to fresh graduates in the area.
ii) Bosco Aluworks Ltd received a GH¢5,000 grant from the Ministry of Business Development for the initial training of the new employees.
iii) The company also received a grant of GH¢120,000 from the Ministry of Special Development Initiative towards the acquisition of a GH¢600,000 machine. The machine has a useful economic life of 8 years and an estimated residual value of GH¢60,000. Depreciation is on the straight line basis.

Required:
Explain how each of the above should be accounted for in the financial statements of Bosco Aluworks Ltd for the year ended 31 April 2017, in accordance with ***IAS 20 Accounting for Government Grants and Disclosure of Government Assistance***. **(5 marks)**

e) ***IAS 23 Borrowing Costs*** requires that borrowing costs directly attributable to the acquisition, construction or production of a 'qualifying asset' (one that necessarily takes a substantial period of time to get ready for its intended use or sale) are to be capitalised or included in the cost of the asset once they meet certain conditions.

Required:
Identify **THREE** conditions that must be met before an entity can commence to capitalise borrowing cost. **(3 marks)**

(Total: 20 marks)

QUESTION THREE

Okushe Ltd, a listed textile manufacturing company prepared this draft statement of financial position as at 31 October 2017. On subsequent examination of the books and records, the Finance Director prepared a list of issues which she believes may require amendments to the draft statement presented.

Okushe Ltd
Statement of Financial Position as at 31 October, 2017

		GH¢000	GH¢000
Non-current assets			
Property, Plant & Equipment			1,020,000
Intangible assets			100,000
Equity investments			360,000
			1,480,000
Current assets			
Inventory			65,000
Trade receivables			130,000
Cash & bank			30,000
			225,000
			1,705,000
Equity:			
Equity share capital			580,000
Retained Earnings:	Balance 1 November 2016	375,000	
	Profit for year	95,000	
	Dividend declared	(30,000)	440,000
Other components of equity:	Balance 1 November 2016	128,000	
Other comprehensive income for the year		35,000	163,000
			1,183,000
Non-current liabilities			
Finance lease obligations			175,000
5% debenture 2021			150,000
			325,000
Current liabilities			
Trade payables			95,000
Finance lease obligations			35,000
Provision for warranty claim			12,000
Corporation tax due			25,000
Final dividend due			30,000
			197,000
Total equity & liabilities			**1,705,000**

The following notes are relevant:

i) Property, Plant and Equipment are carried after charging depreciation for the year. On 31 October 2017, a piece of property, carried at GH¢130 million, was revalued to GH¢110 million. This revaluation has not been accounted for. The revaluation reserve (included with other components of equity) had a balance of GH¢12 million due to previous revaluations of this property.

A sale agreement was entered into during October 2017 to sell some of the plant. The plant sold had a carrying value of GH¢45 million at the date of sale, it was sold for an agreed price of GH¢39 million. No cash has yet been received in respect of this sale, as a 30 day credit period was agreed with the purchaser. No entry has been made to record this transaction.

ii) The equity investments had a fair value of GH¢380 million at 31 October 2017, which has not yet been incorporated into the financial statements. Okushe has taken a decision to take all fair value gains and losses on equity investments to "other comprehensive income" as permitted by ***IFRS 9 - Financial Instruments.***

iii) The 5% debenture was issued on 1 November 2016 for cash proceeds of GH¢150 million, and was correctly recorded. The redemption terms of this debenture are such that the effective rate of interest to maturity was 6.5%. The only other entry made in respect of the debenture was the payment of GH¢7.5 million interest on the due date 31 October 2017.

iv) Okushe Ltd offers a 12-month warranty on all goods sold to retail customers. A provision is maintained for the expected cost of honouring this warranty. This has not been updated as at 31 October 2017. Okushe sold 40,000 units of its relevant product during the year, all of which qualify for warranty. It expects that 10% of these would need minor repairs at an average cost of GH¢500 each, and 3% would need major repairs at a cost of GH¢10,000 each. All costs are expected to be incurred within 12 months.
(Ignore the taxation effects of any adjustments you make)

Required:

a) Prepare a schedule showing any corrections required to the profit and other comprehensive income for the year. **(8 marks)**

b) Redraft the Statement of Financial Position at 31 October 2017 taking the above into account. **(12 marks)**

(Total: 20 marks)

QUESTION FOUR

Fadama Ltd is a listed manufacturing company that plans to increase its production capacity. Below are the most recent financial statements of the company.

Statement of Financial Position as at 31 March

	2017	2016
Non-Current Assets	**GH¢000**	**GH¢000**
Property, plant & equipment	22,500	21,000
Intangibles	1,000	904
	23,500	21,904
Current Assets		
Inventories	1,680	2,250
Trade and other receivables	520	420
Investments	76	36
Cash and cash equivalents	10	60
	2,286	2,766
Total assets	**25,786**	**24,670**
Equity		
Ordinary share capital	12,000	10,500
General reserves	3,600	2,850
Revaluation surplus	1,500	712
Retained earnings	4,022	6,738
	21,122	20,800
Non-current liabilities		
Preference share capital (redeemable)	1,520	1,200
Current liabilities		
Trade and other payables	444	420
Taxation	1,200	1,050
Ordinary dividend payable	1,500	1,200
	3,144	2,670
Total equity and liabilities	**25,786**	**24,670**

You have been provided with the following additional information in relation to Fadama Ltd's trading performance for the years ended on the stated dates:

	31/3/2017	31/3/2016
	GH¢000	**GH¢000**
Revenue	6,800	5,600
Cost of sales	(4,080)	(2,800)
Operating expenses	(758)	(714)

Required:
Write a report to the Chief Executive Officer of Fadama Ltd, concisely analysing the ***profitability*** and ***working capital management*** of the firm. Your report should be supported with appropriate ratios. **(15 marks)**

QUESTION FIVE

a) Ashaiman and Nima are in partnership sharing profits and losses 2:1. They had originally invested GH¢50,000 and GH¢40,000, respectively. Their current account balances on 1 November 2016 were GH¢14,000 credit for Ashaiman and GH¢9,900 debit for Nima.

The partnership agreement specifies the following:

- The payment of interest on drawings and receipt of interest on capital at the rate of 5% per annum and 3% per annum, respectively.
- The partners take drawings in the same proportion as they share profits or losses. Ashaiman takes drawings of GH¢2,400 a month with Nima taking the amount of drawings as allowed by the partnership rules.
- Nima is entitled to take a salary of GH¢2,000 a month.
- The interest on drawings is calculated as if the drawings for the six month period had been taken in full on the first day of the period.

On 1 May 2017, Ashaiman decides to retire. Both partners agree to have the partnership valued and bring in the resultant goodwill into the partnership. Ashaiman agrees to leave GH¢30,000 of his capital as a loan to the business earning interest at the rate of 4% per annum and to withdraw the balance of what is owing to him. An independent expert values the goodwill on 1 May 2017 at GH¢90,000.

On 1 May 2017, Nima decides to enter into a new partnership with Asawasi where they share profits or losses 3:1. They decided to keep the same interest rates from the previous partnership agreement in relation to drawings and capital. Nima's salary was changed to GH¢2,200 a month from this period to the year-end, Nima took drawings of GH¢10,000 and Asawasi took drawings of GH¢5,000. Asawasi introduced capital of GH¢25,000 on his admission to the partnership. The goodwill was cancelled in the same proportion as they share profits or losses.

The profits for the year amounted to GH¢108,000 and these profits accrued evenly throughout the year.

Required:

For the year ended 31 October 2017:

i) Prepare the Profit & loss Appropriation Accounts. **(9 marks)**

ii) Prepare the Current Account of all the individual partners. **(6 marks)**

b) Financial statements are the prime measure of management performance by the shareholders. However, as management is responsible for the preparation of financial statements, shareholders have to rely on external verification by auditors in order to gain reasonable assurance that the accounts are free from material misstatements and can therefore be relied upon to give true and fair view of the affairs of the company.

Required:

Identify **FIVE** limitations which the preparation of financial statements imposes on discharge of accountability to the users of such statements. **(5 marks)**

c) It is sometimes argued that companies should be given a choice in matters of financial reporting on the grounds that accounting standards are detrimental to the quality of such reporting.

Required:
Identify **FIVE** points in favour of the adoption of accounting standards. **(5 marks)**

(Total: 25 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

a)

Calculation of goodwill on acquisition:	GH¢m	GH¢m
Cost of investment		4,400
Fair value of NCI		900
Fair value of net assets at acquisition	4,700	
Add adjustment for plant	90	(4,790)
Goodwill		510
Impairment loss 31 October 2017		(110)
Recoverable amount 31 October 2017 (to SOFP)		400

(3 marks evenly spread using ticks)

Note;
The recoverable amount of goodwill is given as GH¢400m. Hence goodwill must be reported at that amount. The difference between goodwill at acquisition (GH¢m510) and its recoverable amount (GH¢400m) is impairment loss GH¢110m).

b) **Spacefon Group**

Consolidated statement of profit or loss account for the year ended 31 October 2017

		GH¢million
Revenue	(4,428+(2,448*4/12)-50(iv)	5,194
Cost of Sales	(1,674+(864*4/12)+5(iii)-50(iv)+6(iv))	1,923
Gross profit		3,271
Operating expenses	(1,116+(828*4/12)+110(ii)-4(v)	(1,498)
Finance costs	(180+(108*4/12))	(216)
Other income	(32.4 - 4(v) -3.2 (vii)	25.2
Investment income		129.6
Share of profit for year of associate (219.6*40% x4/12)(vi))		29.28
Profit before taxation		1,741.08
Taxation	(270+(108*4/12)	(306)
Profit for the year		1,435.08
Other comprehensive income(Amounts that will not be classified to profit or loss)		
Gains on revaluations of property (226.8+(72*4/12)		250.8
Share of other comprehensive income of associate (64.8*40%)x4/12		**8.64**
Total comprehensive income for the year		**1,694.52**
Profit for the year attributable to:		
Owners of the parent (balancing figure (1,435.08 – 11.8)		1,423.28

Non-controlling interest (viii)	11.8
	1,435.08
Total comprehensive income attributable to:	
Owners of the parent (balancing figure 1,694.52 -16.6)	1,677.92
Non-controlling interests (viii)	16.6
	1,694.52

Working (i) Group structure:

Spacefon Ltd – Parent
Spacefon in Buzz Ltd 80%
NCI in Buzz Ltd 20%

Spacefon in Kasapa 40%

Buzz Ltd – 80% subsidiary for 4 months of year therefore include 100% of results *4/12
Kasapa – 40% interest is evidence of significant influence exerted. Therefore Kasapa is an associate held. Include 40% of profit for year and 40% of Other Comprehensive Income with group figures. Kasapa was acquired 4 months into the accounting year. The share of profit from Associate will multiplied by 4/12.

Working (ii) Impairment

Impairment loss on consolidated goodwill GH¢110m included as operating expense in year of recognition. NCI is affected as the fair value method was used to calculate goodwill.

Working (iii) Depreciation

Additional depreciation not yet charged re fair value adjustment: 90m / 6 years * 4/12 = GH¢5m
Add to cost of sales expense this year.
NCI is affected as it is Buzz's asset that is being adjusted.

Working (iv) Provision for Unrealised Profit

Eliminate intra-group sales and purchases (GH¢25m) in full from group revenue and group cost of sales.
Unrealised profit provision required = 50m * 30/100 * 2/5 = GH¢6m
[Dr Cost of sales, Cr Inventory in SOFP]
NCI is affected as Buzz was the internal selling company that recorded the gain.

Working (v) Intragroup income and expenses

Eliminate intragroup income and expenses GH¢4m from other income and operating expenses.

Working (vi)
Share of associate's profit for year 219.6 * 4/12 * 40% = GH¢29.28m
Share of associate's OCI 64.8 * 4/12* 40% = GH¢8.64 m

Working (vii) Sale of Land
This is a transaction between parent and associate. We should eliminate 40% of the profit earned on the transaction. GH¢8m * 40% = GH¢3.2m. This should be eliminated from the "other income" heading (though it would be acceptable to show it as a deduction from "Share of results from associate"). **It should NOT be time apportioned**.

Working (viii) – non-controlling interest	**Profit GH¢m**	**TCI GH¢m**
Buzz per SPLOCI (540 x4/12)	180 (4/12 x612)	204
Less goodwill impairment loss (ii)	(110)	(110)
Less adjustment for depreciation on FVA (iii)	(5.0)	(5.0)
Less unrealised profit on intra-group sales (iv)	(6)	(6)
Adjusted figures	59	83
NCI percentage	20%	20%
NCI amount	11.8	16.6

(17 marks evenly spread using ticks)

(Total: 20 marks)

EXAMINER'S COMMENTS
This was a question testing IFRS 10 on consolidated Financial Statement and Associates. The general observations are as follows:

- Some of the candidates consolidated the Associate, instead of using equity accounting method.
- Some of the candidates did not realise that the subsidiary was acquired during the year. Hence, the consolidation should be for four months instead of for a full year.
- Most candidates could not compute the NCI and OCI.
- The information for the computation of Goodwill was straight forward yet most candidates could not do it.

QUESTION TWO

a)

Non-current assets held for sale	**(GH¢m)**
Investment properties held at fair value through profit or loss are *outside the scope of IFRS 5*	0
Land (the land is held under the revaluation model and so is first revalued to fair value (50.5) before applying IFRS 5: lower of (revised) carrying amount (49) and fair value less costs to sell (49.5))	49.0
Trade receivables – *outside scope of IFRS 5*	0
Plant (lower of carrying amount (14) and fair value less costs to sell (9.5))	9.5
	58.5

(4 marks)

b)

	No.	**Cost**	**NRV**	**GH¢**
Ahomka	5,400	22	34*0.85=28.9-4=24.9	118,800
Adonko	2,800	26	34*0.85=28.9-4-10=14.9	41,720
				160,520

(3 marks)

c)

IAS 36 and IAS 16 require that an impairment that reverses a previous revaluation should be recognised through other comprehensive income to the extent of the amount in the revaluation surplus for the same asset. Any remaining amount should be recognised in the statement of comprehensive income. Thus:

Carrying value at 31 December 2011 is 45/50 X GH¢10m =	GH¢9m
The revaluation reserve (GH¢16 - GH¢9) =	GH¢7m
The carrying amount at the 31 December 2016 is 40/45 x GH¢16 =	GH¢14.2m
The recoverable amount at 31 December 2016 =	GH¢5.8m
The total impairment charge is (GH¢14.2 -GH¢5.8) =	GH¢8.4m

Of this, GH¢7m is a reversal of the revaluation reserve, so only GH¢1.4m is recognised through the statement of comprehensive income.

(5 marks)

d)

i. Credit to the Income Statement in the year in which the expenditure relates.
As this relates to the cost of employment it will be allotted to each year as an offset to the salaries or presented as a separate line item in statement of profit or loss.
GH¢80,000/3 years = GH¢26,667 in year 1 and 2 and the balance in year 3 **(2 marks)**

ii. Revenue based grant which will be credited in the year the related expenditure is incurred, i.e. the current year **(1 mark)**

iii. The grant will be credited to the deferred income account and released over the 8 year economic life of the asset. On the balance sheet the unamortized balance of the grant will be treated as deferred income. GH¢120,000/8 years.

	GH¢
Opening balance	120,000
Income statement	15,000
Closing balance	105,000

The asset will be depreciated over 8 years straight line. (GH¢600,000 – GH¢60,000) / 8 years. Income Statement charge GH¢67,500.*

* Alternative method acceptable. **(2 marks)**

e) **Capitalization should commence when**:

- expenditures are being incurred,
- borrowing costs are being incurred and
- activities that are necessary to prepare the asset for its intended use or sale are in progress (may include some activities prior to commencement of physical production). [IAS 23.17-18]

(All 3 points for 3 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. Over 80% of the candidates either did not understand the requirements or lack the basic knowledge of the Accounting Standards. This resulted in the loss of vital marks. Some of them never attempted the question.

- This was a question in respect of Non-current Assets held for sale and discontinued Operations. Candidates appear not to have heard of this before even though the question was straight forward.
- Only a few candidates were able to score the maximum marks in calculating the value of the inventories to be stated in the financial statement in accordance with IAS 2.
- Only a few candidates were able to compute the Impairment of the building in accordance with IAS 36.
- The approach to this sub question was above average. Most Candidates were able to explain how each of the grants would accounted for in the financial statements in accordance with IAS 20, Accounting for Government Grants and Disclosure of Government Assistance.

The conditions that must be met before an entity can capitalise borrowing costs as in IAS 23 was a challenge to most of the candidates.

QUESTION THREE

Workings:

W1 – Property, Plant & Equipment

This piece of property should be revalued downwards by GH¢20 million (130-110). A downward revaluation in an IAS 16 (Property Plant & Equipment) asset should be charged to the revaluation reserve (and OCI) to the extent that a balance exists in that reserve relating to the same asset. Here, this amount is GH¢12 million. Any further revaluation loss should be charged to profit or loss. The extra GH¢8 million of loss should be so charged.

The Plant & Equipment transaction should be recorded as a sale as the agreement has been made, and all significant economic risks and rewards associated with the plant have been transferred to the new owner. Hence a loss on disposal of GH¢6 million (39-45) will be recorded in profit or loss. GH¢45 million will be derecognized from PPE, and a receivable of GH¢39 million recorded in current assets.

W2 – Equity Investments

Under IFRS 9, equity investments should be classified as "Fair Value" financial instruments, and remeasured to fair value at each reporting date. Any resulting gains or losses are taken to profit or loss unless the entity makes an irrevocable election to take them to OCI. The decision has been made by Okushe, hence the gain in value of GH¢20 million (380 – 360) should be taken to OCI as well as being reflected in the carrying value of the equity investments.

W3 – Debenture

Under IFRS 9 the amortised cost method is appropriate for this liability as there is no evidence to suggest the company is treating the liability as a trading instrument. Hence the annual finance charge should reflect the effective rate to maturity rather than the coupon rate. The correct finance cost should therefore be GH¢150m *6.5% = GH¢9.75 million instead of the recorded GH¢7.5 million. The additional GH¢2.25 million (9.75 – 7.5) should be charged as a finance cost to profit or loss and accrued as an additional non-current liability.

W4 – Warranty provision

The current liability for warranty provision needs to be updated at each reporting date to reflect best estimates available at that date. At 31 October 2017 best estimates suggest a provision of GH¢14 million is required, calculated as follows:

	GH¢
Minor repairs: (4,000 * GH¢500)	2 million
Major repairs: (1,200 * GH¢10,000)	12 million
	14 million

As the existing provision is recorded at GH¢12 million, an additional charge of GH¢2 million must be made to bring the provision up to the required GH¢14 million. This should be charged to profit or loss, and added to the existing provision.

a) Schedule of changes to profit and OCI for the year

		Profit for year	OCI for year
		GH¢000	GH¢000
Figures per draft financial statements		95,000	35,000
Revaluation of property	W1	(8,000)	(12,000)
Loss on disposal of plant	W1	(6,000)	
Gain in fair value of equity investments	W3		20,000
Additional finance cost	W4	(2,250)	
Additional warranty provision	W5	(2,000)	-
Adjusted figures		**76,750**	**43,000**

(8 marks evenly spread using ticks)

b)

Okushe Ltd
Statement of Financial Position as at 31 October, 2017

	GH¢000	GH¢000
Non-current assets		
Property, Plant & Equipment (600,000+420,000-45,000W1-20,000 W1)		955,000
Intangible assets		100,000
Equity investments (360,000+20,000 W2)		380,000
		1,435,000
Current assets		
Inventory		65,000
Trade receivables (130,000+39,000 W1)		169,000
Cash & bank		30,000
		264,000
		1,699,000
Equity:		
Equity share capital		580,000
Retained Earnings: Balance 1 November 2016	375,000	
Profit for year	76,750	
Dividend declared	(30,000)	421,750
Other components of equity: Balance 1 November 2016	128,000	
Other comprehensive income for the year	43,000	171,000
		1,172,750
Non-current liabilities		
Finance lease obligations		175,000

5% debenture 2021 (150,000+2,250 W3)	152,250
	327,250
Current liabilities	
Trade payables	95,000
Finance lease obligations	35,000
Provision for warranty claim (12,000+ 2,000 W4)	14,000
Corporation tax due	25,000
Final dividend due	30,000
	199,000
Total equity & liabilities	**1,699,000**

(12 marks evenly spread using Ticks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The approach to the corrections required to the profit and other comprehensive income was far below expectation. The question was straight forward. And in redrafting the Statement of the Financial Position, a few candidates rather reproduced the question, since they did not know what to do.

QUESTION FOUR

a) APPENDIX

	2017	**2016**
Gross profit %	2,720* 100 = 40% 6,800	2,800*100 = 50% 5,600
Inventory days	1,680*365 = 150 days 4,080	2,250 * 365 = 293 days 2,800
Trade receivables Average collection	520 * 365 = 28 days 6,800	420* 365 = 27 days 5,600
Trade payables Average payment	334*365 = 29.87 days 4,080	400*365 = 52.14 days 2,800
Trade payables	444*365 = 40 days	420*365 = 55 days

Average payment	4,080	2,800
Current Ratio	2,286/ 3,144 0.72:1	516/2,670 1.03:1
Acid test ratio	606/3144 0.19 :1	

REPORT

To: Chief Executive Officer
From: Consultant
Date: 31/03/2017
Subject: **Profitability and Working capital management of Fadama Ltd for the year ending March 2017**.

As requested, I have analyzed the profitability and working capital management of Fadama Ltd. My analysis is based on the Statement of financial Position, and the additional information given. A number of key measures have been calculated and these are set out in the attached Appendix. **(1 mark)**

Profitability
Sales have increased by 21% and cost of sales has risen by 46%, resulting in a fall of 3% in the gross profit. This could be explained by a strategy of lowering sales prices to boost volumes. If so, it did not succeed, either in terms of gross profit amount, or gross margin. However, operating costs have increased by just GH¢44,000 or 6% - much less than the percentage increase in revenue. As a result, the ratio of expenses as a percentage of revenue has fallen from 12.75% to 11.1%.

Working capital management
- **Cash, including the short term investments**, has reduced by GH¢10,000, a fall of 10%. However this is not material in the context of the large sums invested in non-current assets and paid out as dividends. Operating cash flow is healthy.
- A big improvement is evident in the **inventory day's ratio** from 2016 to 2017. However it would seem reasonable to expect further improvement, as 6 months is rather a long time to be carrying inventory. Efficient production services must be introduced with effective marketing, selling and distribution of products.
- **Trade receivables and payables** are reasonable consistent, with a significant improvement noteworthy in the case of the payables days.
- **Current ratios** seem rather weak, however a cessation of dividends would be a simple way to boost cash flow should an emergency present.

Conclusion
Fadama Ltd's profit margins can be improved by **deliberately reducing the operating expenses for the year, intensive sales and marketing strategies to boost sales revenue.** There are no apparent short-term liquidity problems but Fadama Ltd should find solution to **reducing inventory days** as this will reduce cost of holding inventory. The firm should also consider **cessation of payment of dividends to improve liquidity**.

(1 mark)

(Total: 15 marks)

EXAMINER'S COMMENTS
This was a bonus question, since most candidates scored the maximum marks but as usual a few candidates messed up computing ratios where there was no information in the question.

QUESTION FIVE
a)
i) Profit and Loss Appropriation account for the year ended 31 October, 2017

		Old Partnership	**New Partnership**
		GH¢	GH¢
Net Profit	108,000 split evenly per month	54,000	54,000
Less Interest		-	(600)
Add interest on Drawings	Workings 1		
Ashaiman		360	-
Nima		180	250
Asawasi		-	125
Less Salary-Nima-2,000*6 Mths:2,200*6 Mths		(12,000)	(13,200)
Less Interest on Capital	Workings 2		
Ashaiman		(750)	-
Nima		(600)	(600)
Asawasi		-	(375)
Residual Profits		**41,190**	**39,600**

Residual Profits Split		
Ashaiman 2:1	27,460	-
Nima 1:2 in 1st Partnership and 3:1 2nd Partnership	13,730	29,700
Asawasi 1:3	-	9,900
	41,190	**39,600**

ii) Partners Current Account

	Ashaiman	Nima	Asawasi		Ashaiman	Nima	Asawasi
	GH¢	GH¢	GH¢		GH¢	GH¢	GH¢
Bal b/d	-	9,900	-	Bal b/d	14,000	-	-
Goodwill	-	67,500	22,500	Interest on Capital	750	1,200	375
Interest on Drawings	360	430	125	Salary	-	25,200	-
Drawings	14,400	17,200	5,000	Residual Profits	27,460	43,430	9,900
Bank	88,050	-	-	Interest on Loan	600	-	-
				Goodwill	60,000	30,000	-
Bal C/d	-	4,800	-	Bal C/d	-	-	17,000
	102,810	99,830	27,625		102,810	99,830	27,975
Bal b/d	-	-	17,700	Bal b/d	-	4,800	-

Workings 1- Interest on Drawings

	Amount	No. of Months	Interest	Interest on Drawings	
Ashaiman	**GH¢**			**GH¢**	
1/11/2016 - 30/04/2017	14,400	6	5%	360	
01/05/2017 – 31/10/2017	-	6	5%	-	360
	14,400				
Nima					
01/11/2016 – 30/04/2017	7,200	6	5%	180	
01/05/2017 – 31/10/2017	10,000	6	5%	250	430
	17,200				
Asawasi					
01/11/2016 – 30/04/2017	-	6	5%	-	
01/05/2017 - 31/10/2017	5,000	6	5%	125	125
	5,000				
					915

Workings 2 – Interest on Capital

	Ashaiman	Nima	Asawasi	
	GH¢	GH¢	GH¢	GH¢
50,000 *3% * 6/12	750			
- *3% * 6/12	-			
40,000 * 3% * 6/12		600		
40,000 *3% * 6/12		600		
- * 3% * 6/12			-	
25,000 * 3% * 6/12	-	-	375	
	750	**1,200**	**375**	**2,325**

b) Limitations of financial reporting

- It fails to account for externalities. Backward looking, (Historic data) therefore information is of limited use. Decision usefulness to who? – Suppliers of capital (effectively shareholders) – limited accountability.
- Estimates and many areas of judgement – do accountants construct their reality of how the world is?
- Conceptual Framework supports the view that information on financial performance and position should be primarily for suppliers of capital.
- Narrow view of accountability/serves capitalist system – what about other key stakeholders?
- Contract an organization should have with society (e.g. Banks). Ethic of accountability.
- Need wider system of reporting (e.g. Environmental/sustainability/integrated reporting).
- Cost of preparing reports (e.g. separate sustainability report) for different users can be prohibitive.

(Any 5 points for 5 marks)

c) Points in favor of accounting standards

- They reduce or eliminate confusing variations in the methods used to prepare financial statements
- They provide a focal point for debate and discussions about accounting practice.
- They oblige companies to disclose the accounting policies used in preparation of accounts
- They are a less rigid alternative to enforcing conformity by means of legislation
- They have obliged companies to disclose more accounting information than they would otherwise have done if accounting standards did not exist.

(5 points for 5 marks)

(Total: 25 marks)

EXAMINER'S COMMENTS

The approach to the partnership question was far below average. Most candidates showed their lack of the basic understanding of the partnership accounts. They failed to apportion the transactions between the old and the new partnerships after the retirement of one of the partners.

The approach to identify the limitations in the preparation of the financial statements was above average. Only a few candidates did not attempt the question.

The approach was below average. Only a few candidates were able to state the points in favour of the adoption of accounting standards.

CONCLUSION

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.