MAY 2019 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 as usual below average. It showed that most of the candidates were not prepared and therefore not ready for the examination. They showed lack of knowledge in the Accounting Standards and the Double Entry Principles. Candidates with high understanding of the Accounting Standards scored high marks especially in questions two, five (c) and (d). The orderly and logical presentation of answers continued to be a challenge to most candidates. For instance, a candidate started a question on page one and then continued on page 18 with no reference on page one to the continuation on page 18 and the failure to correctly identify the questions answered with the question numbers.

STANDARD OF THE PAPER

The standard of the questions was quite good, and compared favourably to those of the earlier years administered, except in terms of the volume of work required in questions three and five. 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.

PERFORMANCE OF CANDIDATES

The general performance of the candidates was far below average. About 80% of the candidates scored less than 40% of the total marks while a candidate scored as low as 5%. The poor performance could be attributed to inadequate preparation by candidates, or the low level of education achieved in their previous levels of studies. 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% of the total marks. The candidates' strengths were in the preparation of the Consolidated Income Statement in question one, the preparation of Financial Statement for publication 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 areas in which such strengths can be enhanced include the International Financial Reporting Standards (IFRS).

The general weaknesses shown were in respect of either lack of preparation or the background of most of the candidates resulting in the inability to understand the additional information in respect of the questions. 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

Sunyani Ltd (Sunyani) is a limited liability company based in Brong Ahafo. It has shareholdings in two other companies, Berekum Ltd (Berekum) and Jinijini Ltd (Jinijini). Sunyani bought 150 million ordinary shares in Berekum on 1 August 2016, when the retained earnings of Berekum were GH¢22 million. The consideration was agreed at GH¢110 million for these shares.

On 1 August 2017, Sunyani bought a 40% holding in the ordinary shares of Jinijini when the retained earnings balance in Jinijini's books stood at GH¢26 million. The consideration was an immediate cash payment of GH¢25 million. The directors of Sunyani negotiated the right to appoint 4 directors to Jinijini's 12-person board as a result of its investment. Statements of Financial Position are shown below for all three companies as at 31 July 2018.

Statements of Financial Position as at 31 July, 2018

	Sunyani Ltd	Berekum Ltd	Jinijini Ltd
Non-current assets	**GH¢ million**	**GH¢ million**	**GH¢ million**
Property, Plant and Equipment	250.0	72.5	50.0
Investments	150.0	24.0	2.5
	400.0	96.5	52.5
Current assets			
Inventories	90.0	25.5	11.5
Trade receivables	32.0	12.0	6.5
Cash & Bank	12.0	6.5	4.0
	134.0	44.0	22.0
	534.0	**140.5**	**74.5**
Equity			
Equity share of GH¢0.25 each	225.0	50.0	30.0
Retained earnings	179.0	32.5	30.5
	404.0	82.5	60.5
Non-current liabilities			
6% Loan Notes	50.0	40.0	-
Current liabilities			
Trade payables	71.5	18.0	9.0
Dividends proposed	8.5	-	5.0
Total liabilities	130.0	58.0	14.0
Total equity & liabilities	**534.0**	**140.5**	**74.5**

The following additional information may be relevant:

i) At the date of acquisition, Sunyani conducted a fair value exercise on Berekum's net assets which were equal to their carrying amounts with the following exceptions:

- A property held by Berekum had a fair value GH¢10 million in excess of its carrying value. 75% of the value of this property relates to buildings with a useful economic life of 10 years at the date of acquisition.
- Berekum had an unrecorded deferred tax liability of GH¢7 million, which was unchanged as at 31 July 2018.

ii) Sunyani's policy is to value any Non-Controlling Interests (NCI) at their proportionate share of identifiable net assets at the acquisition date.

iii) Immediately after the acquisition, Berekum issued GH¢40 million of 6% loan notes, GH¢8 million of which were bought by Sunyani Ltd. This investment has been correctly recorded in the books of Sunyani under the heading "Investments". All interest due on loan notes as at 31 July 2018 has been paid and recorded.

iv) During the financial year ended 31 July 2018, Berekum had sold goods to Sunyani amounting to GH¢30 million. The purchase price included a mark-up of 20% on cost. Berekum's normal mark-up on goods sold is 60%. Of these goods, one-quarter remained in the closing inventory of Sunyani at the reporting date.

v) Sunyani has not accounted for any dividend receivable from its group companies. Both Sunyani and Jinijini have proposed dividends as shown in current liabilities. Jinijini's proposed dividend relates entirely to the post acquisition period. No other dividends were paid or proposed in the year.

vi) Recorded in the books of Sunyani was an intra-group trade payable of GH¢10 million owed to Berekum at year-end. However, the books of Berekum showed a balance of GH¢11 million owed by Sunyani. It transpired that Berekum's computer system had automatically charged to Sunyani's account, interest of GH¢1 million due to late payments. It was subsequently agreed that Berekum would waive this interest.

vii) There were no impairment losses during the year end 31 July, 2018.

(All workings may be rounded to the nearest GH¢0.01m)

Required:

Prepare the Consolidated Statement of Financial Position for the Sunyani group as at 31 July 2018 in accordance with International Financial Reporting Standards. **(20 marks)**

QUESTION TWO

a) Bremang Ltd's draft profit after tax for the year ended 31 October 2018 is GH¢10.2 million. At the beginning of the financial year, the company had 3.6 million, GH¢1 ordinary shares in issue. On 1 February 2018, the company entered into an arrangement with a supplier where the supplier would be given 48,000 GH¢1 ordinary shares in Bremang Ltd in return for services with a fair value of GH¢600,000 at 1 February 2018 to be performed evenly over the period 1 February 2018 to 31 January 2019. The shares were delivered on 31 January 2019 and earned proportionately over the year to 31 January 2019 as the services were rendered. The arrangement has not been recognised in the draft financial statements.

Required:
Calculate the ***basic earnings per share*** figure for Bremang Ltd for the year ended 31 October 2018(to the nearest pesewas) in accordance with ***IAS 33: Earnings per Share.*** (Note: There is no tax or deferred tax consequences of the share issue). **(4 marks)**

b) Kumbungu Group owns a number of freehold properties throughout Northern Region. Three of these properties are rented out under annual contracts, the details of which are as follows:

Property	Life	Cost	Value at 31/12/2017	Value at 31/12/2018
		GH¢'000	GH¢'000	GH¢'000
1	50 years	200	275	225
2	40 years	180	240	210
3	15 years	150	175	180

All three properties were acquired on 1 January 2017, and their valuation is based on their age at the date of the valuation. Property 1 is let to a subsidiary (60% ownership) of Kumbungu on normal commercial terms, while Property 2 and Property 3 are let on normal commercial terms to companies that are not related to Kumbungu.

Kumbungu adopts the fair value model of accounting for investment properties in accordance with ***lAS 40: Investment Properties*** and the benchmark treatment for owner-occupied properties in accordance with ***lAS 16: Property, Plant and Equipment.*** Annual depreciation, where appropriate, is based on the carrying value of assets at the beginning of the relevant accounting period.

Required:
Prepare extracts for the consolidated income statement of Kumbungu for the year ended 31 December 2018 and the consolidated statement of financial position as at that date in respect of the above properties. **(5 marks)**

c) ***IAS 12: Income Taxes*** sets out guidance for dealing with under provision and over provision of income taxes by reporting entities.

During the year ended 31 March 2019, Dansoman Ltd finalised and paid its liability for corporate tax on profit for year ended 31 March 2018, at an amount of GH¢21 million. It had previously made an estimated provision for corporation tax of GH¢25 million in the financial statements for year ended 31 March 2018. The directors estimate the liability for year ended 31 March 2019 at GH¢24.5 million.

Required:
Explain the treatment of the above transactions in the financial statements of Dansoman Ltd for the year ended 31 March 2019 in respect of taxation. **(4 marks)**

d) Sukura Ltd is preparing its financial statements for the year ended 31 December 2018. Sukura Ltd entered into a contractual arrangement on 1 September 2018 with another company, Mammobi Ltd, setting up an unquoted entity, Awoshi Electronics. However, in this arrangement Sukura Ltd only has a 15% shareholding and does not have any influence in the day to day financial and operating policies. Sukura Ltd has recorded the investment in Awoshi Electronics at its cost on 1 September 2018, being the carrying amount of the equipment and cash transferred at that date. No subsequent changes were made to the carrying amount.

Required:
Advise the directors on the accounting treatment of the above in Sukura Ltd's financial statements for the year ended 31 December 2018. **(4 marks)**

e) ***IFRS 16: Leases*** was issued in January 2016 and is effective for accounting periods beginning on or after 1 January 2019. However, early adoption is permitted, provided ***IFRS 15: Revenue from Contracts*** with Customers is implemented also. This standard applies to all leases, except those shorter than 12 months and small assets. It also brings additional disclosure requirements for both lessees and lessors. The IFRS brings significant changes to those leases formerly classified as operating leases under ***IAS 17: Leases***, the previous standard.

Required:
Identify **THREE (3)** key principles behind the accounting treatment for leases as required by **IFRS 16**. **(3 marks)**

(Total: 20 marks)

QUESTION THREE

The following trial balance was extracted from the books of Frafraha Ltd (Frafraha) on 31 March 2018.

	Note	Dr. GH¢000	Cr. GH¢000
Revenue			372,000
Purchases		221,000	
Administration expenses		120,000	
Land and buildings at valuation 1/04/2017	(i)	62,000	
Plant and machinery at cost	(i)	60,000	
Accumulated depreciation 01/04/2017 (Plant and equipment)			20,000
Intangible assets at cost	(iii)	30,000	
Inventories at 01/04/2017	(ii)	37,300	
Cash and cash equivalents		75,700	
Equity shares of GH¢1 each			110,000
Suspense account	(i)	11,000	
Retained earnings 01/04/2017		-	115,000
		617,000	617,000

The following notes may be relevant:

i) Frafraha applies the revaluation model of ***IAS 16 Property, Plant & Equipment*** to its land and buildings. A revaluation took place on 31 March 2017 and resulted in the fair value of GH¢62 million shown above. This figure included GH¢22 million in respect of land. The buildings were deemed to have a 40-year useful economic life remaining at that date. No depreciation has yet been charged for the accounting period ended on 31 March 2018. All depreciation is charged to cost of sales. On 31 March 2018, a further revaluation took place which revealed a fair value of GH¢24 million for the land, and GH¢41 million for the buildings. This is to be recorded in the books in accordance with the accounting policy of Frafraha.

   Plant & equipment is being depreciated at 25% per annum straight line from the date of purchase to the date of sale. On 1 October 2017, a piece of plant was purchased at a cost of GH¢12 million. This replaced another piece of plant which had cost GH¢8 million some years ago and was fully depreciated prior to 31 March 2017. A trade-in allowance of GH¢1 million was received for the old plant. The only entries made to record this transaction were to credit cash and debit suspense with the net payment of GH¢11 million. No other item of plant was more than three years old at 1 April 2017.

ii) The inventories figure in the trial balance is the opening inventories balance measured on the first-in first-out (FIFO) basis. Due to a change in Frafraha's business, the company decided to change its accounting policy with respect to inventories to a weighted average basis, as follows:

	31 March 2016 GH¢'000	31 March 2017 GH¢'000
FIFO	33,200	37,300
Weighted average	30,300	34,100

Closing inventories at 31 March 2018, measured under the weighted average basis, amounted to GH¢41.2 million.

iii) Intangible assets consist of capitalised development costs of GH¢30 million. These relate to products in development at 1 April 2017. No revenue has yet been earned from any of these products. They are all expected to be successful once ready for market, with the exception of one project. The amount previously capitalised in respect of this project was GH¢6 million. However, adverse developments have led to the decision to abandon the project as it was unlikely to be successful in the marketplace. During the year further expenditure was incurred on other qualifying projects and was charged to administration expenses. The amounts are as follows:

- Prototype development costs GH¢3 million.
- Marketing research to determine the optimal selling strategy GH¢1 million.
- Basic research which may lead to future projects GH¢4 million.

iv) Frafraha commenced construction of a new warehouse on 1 May 2017.The building was completed and available for use on 30 November 2017. The cost of construction amounted to GH¢9 million, funded out of general borrowings, which comprise two bank loans as follows:

- GH¢4 million of bank loan finance at 6% interest.
- GH¢6 million of bank loan finance at 4.5% interest.

All interest costs have been expensed in the year to 31 March 2018 but no other entries has been passed in respect of this. Ignore any depreciation in relation to the new warehouse.

v) Corporate tax for the year is estimated at GH¢0.25 million.

Required:

Prepare, in a form suitable for publication to the shareholders of Frafraha Ltd the Statement of Profit or Loss for the year ended 31 March 2018 and Statement of Financial Position as at 31 March 2018. **(20 marks)**

QUESTION FOUR

Zangi Ltd is a private company in Ghana and extracts from its most recent financial statements are provided below:

Statement of profit or loss for the year ended 31 March

	2017	2018
	GH¢	GH¢
Sales	50,000	36,000
Cost of sales	(30,000)	(24,000)
	20,000	12,000
Profit from sale of division	-	1,000
Distribution costs	(5,300)	(3,500)
Finance costs	(2,900)	(4,800)
Administrative costs	(800)	(400)
	11,000	4,300
Income tax expense	(3,300)	(1,300)
Profit after tax and for the year	**7,700**	**3,000**

Statement of financial position as at 31st March

	2017	2018
Assets	GH¢	GH¢
Non- current assets		
Property, plant and equipment	19,000	16,300
Goodwill	2,000	-
	21,000	16,300
Current assets		
Inventories	5,800	3,400
Trade receivables	2,400	1,300
Cash at bank	-	1,500
	8,200	6,200
	29,200	**22,500**
Ordinary share capital (issued at GH¢1 each)	10,000	10,000
Retained earnings	4,000	3,000
	14,000	13,000
Non-current liabilities		
10% debenture loan	8,000	4,000
Current liabilities		
Trade payables	3,100	4,300
Income tax payable	2,700	1,200
Bank overdraft	1,400	-
	7,200	5,500
	29,200	**22,500**

Required:

a) Calculate the following ratios using the information in the financial statements above.

i) Operating profit margin

ii) Gross profit margin

iii) Return on assets employed

iv) Debt to equity
v) Interest cover
vi) Current ratio
vii) Quick ratio

(6 marks)

b) Comment on the ***profitability, liquidity and gearing*** of the company for the two year periods based on the ratios computed above and advice management where appropriate. **(9 marks)**

(Total: 15 marks)

QUESTION FIVE

a) The dissolution of a partnership is the process during which the affairs of the partnership are wound up. This should not be confused with the term dissolution when applied to a limited company, which is the event that marks the conclusion of the winding-up.

Required:
Explain **THREE (3)** differences between ***dissolution of a partnership*** and ***dissolution of a limited liability company.*** **(3 marks)**

b) Lease and hire purchase are very popular options of financing assets. These options vary from each other in many aspects: ownership of the asset, depreciation, rental payments, duration, tax impact, repairs and maintenance of the asset and the extent of finance.

Thereatta Ltd is a listed advertisng company operating in Ghana. The Board of Thereatta Ltd (Thereatta) were contemplating on the most suitable option to finance one of its machinery before settling on Hire Purchase. On 1 January 2016, Thereatta acquired a machinery on hire-purchase basis from Askona Ltd agency. The terms of the Hire Purchase agreement requires Thereatta to make four annual installments of GH¢6,000 each payable at the end of each year. There is no down payment. Interest is charged at 20% per annum and is included in the annual installments.

Because of financial difficulties, Thereatta after having paid the first and second installments respectively could not pay the third yearly instalment due on 31 December 2018, whereas the vendor repossessed the machinery. Thereatta provides depreciation on the machinery at 10% per annum according to the written down value method.

Required:
Show the accounting treatment of the Machinery account and the account of Askona Ltd agency in the books of Thereatta. **(All workings must be shown)**. **(12 marks)**

c) The development of the ***IASB Conceptual Framework for Financial Reporting*** over the years has led to the IASB producing a body of accounting standards that have the advantages for those companies that adopt them. The Framework is also of value to auditors, and the users of financial statements, and more generally help interested parties to understand the IASB's approach to the formulation of an accounting standard.

Required:
Summarize the ***contents (scope)*** of the IASB's Conceptual Framework for Financial Reporting. **(4 marks)**

d) Explain how Tatale Ltd should account for the following items, justifying your answer by reference to the ***definitions*** and ***recognition criteria*** in the ***IASB Conceptual Framework for Financial Reporting***.

i) Photographs of the company's founders, which are of great sentimental and historical value.
ii) Donation of GH¢10,000 received from a philanthropist.
iii) Obsolete plant now retired from use.

(6 marks)

(Total: 25 marks)

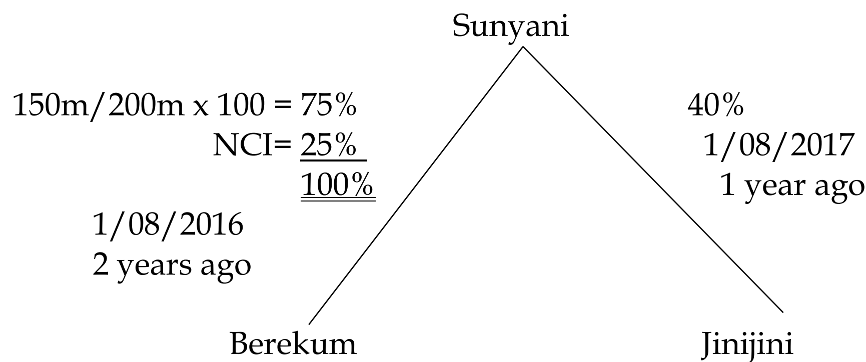
SOLUTIONS TO QUESTIONS

QUESTION ONE

Consolidated Statement of Financial Position of Sunyani Group Ltd as at 31 July 2018

	GH¢ million
Non-current assets	
Property, plant and equipment (250+72.5 +8.5 (W7)	331
Goodwill (W3)	53.75
Investment in Associate (W6)	26.8
Other investments (150-110-25+24-8)	31
	442.55
Current assets	
Inventories (90+25.5-1.25(W8))	114.25
Trade receivables (32+12-1(W9)-10(W9))	33
Dividend receivable from Associate (W10)	2
Cash & Bank (12+6.5)	18.5
	167.75
Total assets	**610.30**
Equity	
Equity shares	225
Retained earnings (W2)	187.86
	412.86
Non-controlling interest (W5)	20.44
	433.30
Non-current liabilities	
6% Loan note (50+40-8)	82
Current liabilities	
Trade payables (71.5+18-10(W9)	79.5
Deferred tax liability	7
Dividends proposed (W8)	8.5
	177
Total equity & liabilities	**610.30**

Workings
W1. Group structure:



Sunyani owns 150m shares out of 200m in Berekum. This gives 75% ownership in Berekum for 2 full years therefore Berekum is a subsidiary.

Sunyani has 40% ownership in Jinijini for the full year and can appoint directors, hence significant influence is exerted. Therefore, Jinijini is an associate.

W2
Net Assets – Berekum

	Acquisition GH¢m	**Reporting GH¢m**	**Post acquisition GH¢m**
Share capital	50	50	---
Retained earnings	22	32.5	10.5
Fair value adj.	10	10	---
Additional depreciation (75% x $\frac{\text{GH¢10m}}{\text{10yrs}}$ x 2yrs)	---	(1.5)	(1.5)
Deferred tax	(7)	(7)	---
PURP (GH¢30m x $\frac{20}{120}$ x $\frac{1}{4}$)	---	(1.25)	(1.25)
Interest paid to parent company	---	(1)	(1)
	75	81.75	6.75

W3

Goodwill – proportionate method	**GH¢m**
Cost of investment	110
Share of net assets (75% x 75)	(56.25)
	(53.75)

W4- Non - Controlling Interest	**GH¢m**
25% x GH¢ 81.75	20.44

W5.

Group retained earnings	**GH¢m**
Sunyani (100%)	179.0
Share of post acquisition profit of associate (40% x GH¢m 4.5)	1.8
Dividend Receivable (40% x GH¢5m)	2.0
Share of post acquisition profit – Berekum (75% x GH¢m 6.75)	5.06
	187.86

W6

Investment in Associate - Jinijini

	GH¢m
Cost of acquisition	25
Share of post-acquisition reserves 40%*(30.5 -26)	1.8
Total	**26.8**

W7 Fair value adjustments (note (iv)):

	At acquisition date	Movement	At rep.
Property Jinijini	GH¢10m	(GH¢1.5m) **	GH¢8.5m

**Movement = depreciation of the adjustment to the buildings component only for 2 full years since acquisition:
GH¢10m * 75% / 10 yrs * 2 yrs = GH¢1.5m. This is charged to the earnings of the company which holds (and therefore depreciates) the asset, namely Jinijini.
Hence:

Dr PPE	GH¢8.5m	
Dr Retained earnings – Jinijini	GH¢1.5m	
Cr goodwill (FV net assets)		GH¢10.0m

W8 Intra-group trading of goods
Unrealised profit (URP) on goods held in closing inventory:
(GH¢15m * 20/120) * 1/4 (sold by Berekum therefore NCI IS affected) GH¢1.25m

Adjustment to reduce reserves (Berekum) and Inventory:
Dr Retained Earnings (Berekum) GH¢1.25m
Cr Inventory
GH¢1.25m

W9 Intra-group balance outstanding & interest charged – Sunyani & Berekum
Eliminate interest GH¢1m:
Dr Retained earnings (Berekum) GH¢1.0m
Cr Trade receivables (Berekum)
GH¢1.0m

Following the above adjustment, the intra group receivables and payables now balance at GH¢10.0m. Hence we must cancel those balances.

Dr Trade payables GH¢10.0m
Cr Trade receivables GH¢10.0m

W10 Dividends
Jinijini's proposed dividend GH¢5m
Amount payable to parent company (40%) GH¢2m

Adjustment to show dividend receivable by Sunyani and increase retained earnings (Sunyani).

Dr Dividends receivable GH¢2.0m
Cr Retained earnings (Sunyani) GH¢2.0m
(80 ticks @ 0.25 = 20 marks)

EXAMINER'S COMMENTS
The approach to this section on Consolidation of the Statement of Financial Position was straight forward and most candidates performed creditably well. Most candidates were able to determine the group structure, goodwill on acquisition and the Non-controlling interest. A few however could not compute the Unrealised Profit on the closing Inventory.

QUESTION TWO

a) Weighted average number of shares:

	GH¢
1/11/2017 b/d	3,600,000
1/2-31/10 Services (48,000 x 9/12 = 36,000 earned x ½ average x 9/12 for the 9 month period the shares are included in the weighted average)	13,500
	3,613,500

Basic earnings per share = (GH¢10,200,000 – (GH¢600,000 x 9/12)) / 3,613,500 = GH¢2.70. **(4 marks)**

b) Property 1 is let to another group entity. From a group perspective, this property is not an investment property, as defined by IAS 40, and must therefore be accounted for in accordance with IAS 16. Properties 2 and 3 are investment properties and are accounted for in accordance with the fair value model of measurement set out in IAS 40.

(1 mark)

Kumbungu

Consolidated statement of financial position as at 31 December 2018 (Extract)

Non-current assets	Cost/valuation	Acc Depreciation	NBV
	GH¢'000	GH¢'000	GH¢'000
PPE (Property 1)	200	[2 years] (8)	192
Investment property 2	210	-	210
Investment property 3	180	-	180

(2 marks)

Kumbungu

Consolidated Income Statement for the year ended 31 December 2018 (Extract)

	GH¢'000
Depreciation [Property 1]	(4)
Deficit in fair value of investment property 2 [240 – 210]	(30)
Surplus in fair value of investment property 3 [175 – 180]	5

(2 marks)

c)

- An amount of GH¢4 million was overprovided for in the previous year.
- Hence the provision for the current year should be reduced by that amount. Hence an expected liability of GH¢24.5 million requires a provision of GH¢20.5 million.
- The liability is still GH¢24.5 million as this is the amount expected to be paid.
- Basically, the provision moves from the existing figure of GH¢4 million credit to the required level of GH¢24.5 million credit.

(4 points for 4 marks)

d)

- The investment in Awoshi Electronics is a financial asset as it is an investment in shares. Such investments must initially be recorded at fair value under ***IFRS 9: Financial Instruments.***
- Consequently, the fair value is the fair value of the equipment plus the cash transferred. As a result, a profit or loss on recognition of the equipment may arise.
- At the year end, as this is an investment in equity instruments, it must be held at fair value. Sukura can choose whether to hold the investment at fair value through profit or loss or fair value through other comprehensive income. The decision is irrevocable.
- As the investment is an unquoted one, fair value cannot be determined by reference to market data, so a business valuation needs to be performed.

(4 points for 4 marks)

e)

- The approach to leases adopted by IFRS 16 requires the commitment to make annual payments to be recognised as a liability, provided the resulting benefit is an asset under the control of the entity for the term of the lease.
- The asset is recognised at present value of the minimum required lease payments, and is depreciated over the shorter of the lease term or the asset's useful economic life (unless it is highly likely that the asset will transfer to the lessee at the end of the least term, in which case the asset's useful economic life should be used).
- The liability is initially measured at the present value of minimum required lease payments, and is subsequently measured at amortised cost, with finance costs taken to profit or loss as incurred, using the effective rate implicit in the lease, or the entity's cost of capital if the implicit rate is not available.

(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 Standards. This resulted in the loss of vital marks. A few of the candidates never attempted the question.

The part (a) was a question on the calculation of earnings per share in accordance with IAS 33. Most candidates could not compute the weighted average number of shares.

The (b) was a straight to the point question based on accounting for investment properties in accordance with IAS 40 and treatment for owner-occupied properties in accordance with IAS 16, Property, Plant and Equipment. Most candidates appeared confused or showed lack of understanding and missed the issue at stake.

Part (c) question was a test on the application of IAS 12 on income tax dealing with under / over provision of income taxes by companies. This was poorly handled as most candidates treated the transaction as a deferred income.

Most of the candidates did not know that the investment in Awoshi Electronics is a financial asset. Hence, they could not advise that such investments should be recorded at fair value under IFRS 9.

Only a few candidates attempted the part (e) and provided the principles behind the accounting treatment for leases as required under the IFRS16. Even then majority of them messed up losing the marks.

QUESTION THREE

Frafraha Ltd

Statement of Profit or Loss account for the year ended 31 March 2018

		GH¢'000
Revenue		372,000
Cost of Sales (i)		(229,400)
Gross Profit		142,600
Administration Expense	(120,000)+6,000(iv)-3,000(iv)	(123,000)
Gain on disposal of plant (ii)		1,000
Finance costs (v)		260
Profit before tax		20,860
Tax (vi)		(250)
Profit for the year		**20,610**

Frafraha Ltd

Statement of Financial Statement as at 31 March 2018

Non-current assets		**GH¢'000**
Land and Buildings	(62,000-1,000(ii) + 4,000 (ii) + 260 (v))	65,260
Plant & Equipment	(60,000-20,000-14,500 (ii) + 12,000 (ii))	37,500
Intangible asset	(30,000-6,000 (iv) + 3,000 (iv))	27,000
		129,760
Current Assets		
Inventory		41,200
Cash and cash equivalents		75,700
		116,900
		246,660
Equity		
Equity share capital		110,000
Revaluation Surplus		4,000
Retained earnings		132,410
		246,410
Current liabilities		
Corporation tax due		250
		246,660

Workings (i)

Purchases	GH¢'000
Per Question	221,000
Opening Inventories	37,300
Closing Inventories	(41,200)
Change in policy (W3)	(3,200)
Depreciation of Buildings (W2)	1,000
Depreciation of Plant & Equipment	14,500
	229,400

Working (ii) / note (i)

Depreciation on buildings for the year needs to be provided for. Amount (62 – 22) / 40 years * 1 year = GH¢1 million

Dr Cost of sales	1.0
Cr Accumulated depreciation - buildings	1.0

Revaluation of land and buildings takes place on 31 March 2018 AFTER depreciation for the year has been charged. Land shows a gain of (24-22) GH¢2 million. Buildings shows a gain of (41 – 39) GH¢2 million. Total gain GH¢4 million.

Dr Land & buildings	3.0	
Dr Accumulated depreciation – buildings	1.0	
Cr Revaluation surplus		4.0

Tutorial note:

Revaluation gains and losses are calculated by deducting the carrying amount at the date of revaluation from the revalued amount. The accounting entry is to eliminate any accumulated depreciation accrued at the date of revaluation and adjust the asset account to equal the revalued amount.

Plant

The new plant is depreciated for 6 months from the date of purchase to the reporting date. The amount of this depreciation is GH¢12 million * 25% * 6/12 = GH¢1.5 million

The remaining plant falls into two categories. First, the plant traded in, costing GH¢8 million, was fully depreciated at the beginning of the period. Hence no depreciation remains to be charged on this plant. Second, the balance of the plant, GH¢52 million, is depreciated for a full year as none of it is more than three years old. This means there is at least a full year remaining in its useful economic life. Depreciation amount GH¢52 million * 25% = GH¢13 million.

Record depreciation on plant & equipment (1.5 + 13 = GH¢14.5 million):

Dr Cost of sales 14.5

Cr Accumulated depreciation – plant & equipment 14.5

The new plant has not yet been capitalised into the plant account. Also, the old plant shows a gain on disposal on GH¢1 million as it was fully depreciated, yet generated economic benefit on disposal of GH¢1 million.
Record new plant correctly, eliminate suspense account, and record gain on disposal of old plant:

Dr Plant & equipment	12.0
Cr Profit or loss (gain on disposal)	1.0
Cr Suspense	11.0

Working (iii)
Change of Policy

	31 March 2016	**31 March 2017**
	GH¢'000	**GH¢'000**
FIFO	33,200	37,300
Weighted average	30,300	34,100
Decrease under Weighted Average	(2,900)	(3,200)

Working (iv)
GH¢6 million needs to be written off with respect to the project that is no longer expected to be successful. This judgment means that the IAS 38 criteria for capitalisation are not met in respect of this project. **Eliminate GH¢6 million from intangible assets:**

Dr Administration expenses	6.0	
Cr Intangible assets		6.0

Among the further expenses, the GH¢3 million for prototype development should be capitalised. The other amounts are correctly charged to administration expenses.
Capitalise GH¢3 million to intangible assets:

Dr Intangible assets	3.0	
Cr Administration expenses		3.0

Working (v)
Borrowing cost
IAS 23 Borrowing costs provides that borrowing costs that are directly attributable to the acquisition or construction of a 'qualifying asset' form part of the cost of that asset. The amount of borrowing costs that should be capitalised is calculated by reference to the weighted average borrowing costs of general borrowing.
Interest rate to use is:

$$\frac{(GH¢4m \times 6\%) + (GH¢6m \times 4.5\%)}{GH¢10m} = 5.1\% \text{ (say 5\%)}$$

Borrowing costs to be capitalised are: GH¢9m x 5% x 7/12 = GH¢0.26m (approximately GH¢0.3m)

	GH¢m	**GH¢m**
Dr NCA (PPE)	0.26m	
Cr SPLOCI (Interest Expense)		0.26m

Working (vi)

Accrue for corporation tax due:

Dr Profit or loss- taxation	0.25m	
Cr Taxation due		0.25m

(60 ticks @ 0.333 marks = 20 marks)

EXAMINER'S COMMENTS

The approach to the preparation of Statements of Profit or Loss for the year and Financial Position suitable for publication was satisfactory. However, a few candidates were confused on the requirements as some of them went ahead to prepare notes and other schedules required under the companies Act, Act 179.

QUESTION FOUR

Ratios	Formula	2017	2018
Operating profit margin	PBIT/sales x 100	13,900/50,000 x 100 = 27.8%	9,100/36,000 x 100 =25.28%
Gross profit margin	Gross profit/Sales x 100	20,000/50,000 x 100 = 40%	12,000/36,000 x 100 = 33.3
Return on assets employed	PBIT/TA LESS TL X 100	13,900/29,200 – 7,200 x 100 = 63.18	9,100/22,500 – 5,500 x 100 53.53%
Debt to equity	Debt/equity x 100	8,000/14,000 x 100 = 57%	4,000/13,000 x 100 = 31.8%
Interest cover	PBIT/interest	13,900/2,900 = 4.79 times	9,100/4,800 = 1.90 times
Current ratio	CA /CL	8,200/7200 = 1.14 : 1	6,200/5,500 = 1.13: 1
Quick ratio	CA –Inventories/ CL	2,400/7,200 0.33:1	2,800/5,500 0.51: 1

(Maximum of 25 ticks at 0.24 marks each) = 6 marks

b) **Profitability**

The gross profit margin has dropped by 2.5% from 2017 levels possibly due to the reduction in sale revenue by 28%. Although the cost of sales has also reduced by 20%, this is not proportionate to the sales figure resulting in lower gross margin. Similarly, the operating margin has also declined from 23.6% in 2017 to 13.06% in 2018 levels. This can be attributable to a marginal increased in distribution expenses the fallen gross margin. On the positive side, administrative expense appears to have been managed well. The return on capital employed which measures the efficiency and effectiveness of management utilizing capital contributed in generating operating profit was higher at 63.18 % but has deteriorated in 2018 to only 53.53%. This could be attributable to the overall decline in profit margins and fallen sales levels.

Recommendation: Management must work to increase sale levels as soon as practicable by increasing advertising campaigns and diversifying its product offerings in order to improve profit margins. **(3 marks)**

Gearing

Gearing measures, the proportion of a company's capital in debts and the associated risks this brings to firms. In 2017, the gearing was high at 57%. However, this has been reduced to 31.8%. Management has paid half of the loan off by the end of 2018 which currently stands at GH¢4,000. Interest cover means the number of times that the operating profit can pay the finance off without challenges. The lower the ratio, the

more the company is burdened by debt expense. In 2017, it was 4.79 times but in 2018 it has slightly reduced to about 1.90 times. The company's ability to meet its finance costs may be questionable in 2018.
The company at the moment does not appear to be highly geared. **(3 marks)**

Liquidity
Liquidity measures the ability of an entity to meet its short-term obligation as and when it falls due. In relation to Zangi Ltd, the current ratio appears to suggest that the company is liquid. However, the quick ratios suggest otherwise, that the company is not liquid as a significant proportion of the current assets are locked up in inventories. Although it's not explicitly clear the industry in which the company is operating, the quick ratios are still not good enough and needs to be improved. Indeed, the improvement seems to have started already as the quick ratio was only 0.33: 1 in 2017 to its current levels of 0.51:1. This trends needs to continue in the next years to come as that is the surest way Zangi Ltd can sustain its operation in the foreseeable future.
(3 marks)

(Total: 15 marks)

EXAMINER'S COMMENTS
This could have been a bonus question, but as usual, most candidates could not compute the ratios, let alone interpret the financial statements provided and as usual messed up in computing the ratios. The explanations to the ratios were too general and poorly done.

QUESTION FIVE

a)

Basis of Comparison	**Dissolution of Partnership**	**Dissolution of Company**
Meaning	Dissolution of a partnership refers to the discontinuance of the relation between partner and other partners of the company.	Dissolution of company implies that entire company ceases to exist, including the relation among all the partners.
Court's Intervention	Court does not intervene because partnership is dissolved by mutual agreement and through the process of reconstitution.	A company is dissolved by a court's order.
Closure of books	Does not require because the business is not terminated	All books of accounts are closed
Economic relationship	Continues to exist but in a changed form.	Comes to an end.
Nature	Voluntary	Voluntary or compulsory

(Any 3 points for 3 marks)

b) Calculation of interest and cash price

Suppose cash price instalment is = 100
Add: Interest = 20
Hire Purchase Instalment = 120

Interest on Hire Purchase Instalment = 20/120 =1/6

Since the cash price is not given, interest will be calculated on the 4 instalments, 4th and then on 3rd, 2nd and 1st respectively

Interest on 4th Hire Purchase
Instalment = GH¢6,000 * 1/6 = GH¢,1000
4th cash price instalment = GH¢6000-GH¢1,000 = GH¢5,000

Interest on 3rd Hire Purchase Instalment
=1/6 * 11,000 (6,000+5,000)
= GH¢1,833
3rd cash price instalment = GH¢6,000-GH¢1,833 = GH¢4167

Interest on 2nd Hire Purchase
=1/6 * GH¢15,167 (6,000 + 4,167 + 5,000)
= GH¢2,528
2nd cash price instalment = GH¢6,000-GH¢2,528 = GH¢3,472

Interest on 1st Hire Purchase Instalment
Instalment = 1/6 * GH¢18, 639 (6,000+3,472+4,167+5,000)
=GH¢3,106
1st cash price instalment = GH¢6,000-GH¢3,106 =GH¢2,894

Total cash price = GH¢2,894+GH¢3,472+GH¢4,167+GH¢5,000**= GH¢15,533**

In the Books of Thereatta Ltd
Askona Ltd agency (Vendor)

2016		**GH¢**	**2016**		**GH¢**
Dec 31	Bank	6,000	Jan 1	Machinery on Hire Purchase	15,533
Dec 31	Bal c/d	12,639	Dec 31	Interest on Hire Purchase	3,106
		18,639			**18,639**
2017			**2017**		
Dec 31	Bank	6,000	Jan 1	Bal b/d	12,639
Dec 31	Bal c/d	9,167	Dec 31	Interests on Hire Purchase	2,528
		15,167			**15,167**
2018			**2018**		
Dec 31	Machinery on Hire Purchase A/c	11,000	Jan 1	Bal b/d	9,167
			Dec 31	Interest on Hire Purchase	1,833
		11,000			**11,000**

Machinery on Hire Purchase A/C

2016		**GH¢**	**2016**		**GH¢**
Jan 1	Askona Ltd agency	15,533	Dec 31	Depreciation A/c	1,553
			Dec 31	Bal c/d	13,980
		15,533			**15,533**
2017			**2017**		
Jan 1	Bal b/d	13,980	Dec 31	Depreciation A/c	1,398
			Dec 31	Bal c/d	12,582
		13,980			**13,980**
2018			**2018**		
Jan 1	Bal b/d	12,582	Dec 31	Depreciation A/c	1,258
			Dec 31	Askona Ltd agency	11,000
			Dec 31	Profit & Loss A/c	324
		12,582			**12,582**

(45 ticks @ 0.2 marks = 9 marks)

c) Scope of the IASB Conceptual Framework for Financial Reporting
The Framework addresses:
- the objective of general purpose financial reporting
- qualitative characteristics of useful financial information
- financial statements and the reporting entity

- the elements of financial statements
- recognition and derecognition
- measurement
- presentation and disclosure
- concepts of capital and capital maintenance

(Any 4 points for 4 marks)

d)

i) Photographs of the company's founders, which are of great sentimental value.

The asset definition is failed as the photographs do not represent future economic benefits (para. 49(a)). Future economic benefits constitute the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to an entity (para. 53).

Recognition criteria are thus irrelevant, as there is no asset to recognise.

(2 marks)

ii) Donation of GH¢10,000.

The asset definition (para. 49(a)) is met as all 3 characteristics are present. –

- Past event: The receipt of the donation.
- Flow of future economic benefits: The donation represents an inflow of GH¢10, 000 cash into Tatale Ltd.
- Control over the future economic benefits: Tatale Ltd will benefit from this GH¢10, 000 cash inflow and can deny or regulate the access of others to this cash inflow

Therefore, an asset of GH¢10 000 must be recognised.

The income definition (para. 70(a)) is met as all 3 characteristics are present.

- Increase in economic benefits during the period:
- In the form of an asset increase: Tatale Ltd now has additional cash of GH¢10 000.
- Results in an increase in equity: If assets increase and liabilities remain unchanged, equity increases.

Therefore, income of GH¢10,000 must also be recognised. Note that in this case the recognition of an asset has resulted in the simultaneous recognition of income (para. 84 and 92).

(2 marks)

iii) Obsolete plant now retired from use

The asset definition is failed as the plant no longer represents future economic benefits (para. 49(a)).

The plant must now be written off from the accounts.

Recognition criteria are thus irrelevant, as there is no asset to recognise.

(2 marks)

(Total: 25 marks)

EXAMINER'S COMMENTS

The approach to the comparison between the dissolution of a Partnership and a limited liability company was poorly done. A few candidates rather compared the difference between a partnership and a company and thus losing the marks.

Most of the candidates failed to attempt the (b) part of the question. It was a disaster for those who attempted it. The preparation of the Machinery ledger accounts was poorly handled. Most candidates could not compute the cost of the equipment and the treatment of transactions in the event of a repossession of equipment under hire purchase agreement.

The presentation on the scope of the Conceptual Framework for Financial Reporting was well handled by most candidates.

Most candidates were able to justify the definitions and recognition under the IASB Conceptual framework for financial Reporting on the various scenarios given.