APRIL 2022 PROFESSIONAL EXAMINATIONS
FINANCIAL REPORTING (PAPER 2.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

EXAMINER'S GENERAL COMMENT

Even though the performance is below expectation, it is nonetheless one of the best performances in recent years. A good number of candidates scored between 60 and 85 percent. Some candidates also scored very low marks between 0 to 39%. The performance of most candidates continues to show a lack of solid foundation and skills needed for the paper. Meanwhile, the questions fell within the approved syllabus of the Institute and the marks distribution was fair and in line with the syllabus grid.

STANDARD OF THE PAPER

The standard of questions was appropriate for the level being assessed. The syllabus coverage was good and provided candidates with enough flexibility to appropriately respond to technical and current developments in Financial Reporting.

PERFORMANCE OF CANDIDATES

The performance of candidates again was found to be average even though it could have been better, considering the quality of questions and the flexible marking scheme adopted by the examiners during the coordination.

A little over 40% of the candidates scored marks between 50% and 85%. Majority of the candidates scored marks below 50%. Some candidates performed poorly, scoring as low as 0%. The poor performance of some can be attributed not only to inadequate preparation by candidates for the paper, but also to the standard of quality attained by candidates in previous tertiary institutions attended. Examiners did not sight any signs of copying by candidates at any centre.

NOTABLE STRENGTHS OF CANDIDATES

Majority of the candidates who passed scored very high marks in questions four (4) and five (5). In addition, some scored very good marks in question one (1). Very few candidates also scored good marks in question three (3).

WEAKNESSES OF CANDIDATES

- The performance of candidates in question two demonstrated a lack of appreciation of International Financial Reporting Standards (IFRSs). Candidates demonstrated a pitiful understanding of interpretation and application of IFRSs. This lack of understanding demonstrated by candidates on IFRSs is worrying. Most candidates simply avoided question two which is solely on the application of IFRSs.
- Candidates appeared too ordinary. Their language and presentation lack technical substance. Financial Reporting is a very technical paper and candidates without the requisite technical knowledge will need to up their game.
- The comprehension of candidates on the subject needs considerable improvement.

QUESTION ONE

The following financial statements relate to Stalky Ltd and Fanny Ltd:

Extract of Statement of Profit or Loss for the year ended 31 December 2020

	Stalky Ltd	Fanny Ltd
	GH¢000	**GH¢000**
Profit before tax	15,400	8,900
Tax	(5,600)	(4,850)
Profit for the year	**9,800**	**4,050**

Statement of Financial Position as at 31 December 2020

	Stalky Ltd	Fanny Ltd
	GH¢000	**GH¢000**
Assets		
Non-current assets:		
Property, plant and equipment	122,500	75,000
Investment in Fanny Ltd	58,000	-
	180,500	75,000
Current assets (including loan advanced to Fanny Ltd)	69,500	44,900
Total assets	**250,000**	**119,900**
Equity and liabilities		
Equity:		
Ordinary share capital (issued @ GH¢0.50)	50,000	20,000
10% Preference share capital	5,300	2,500
Retained earnings	89,700	46,400
Other reserves	11,000	1,000
	156,000	69,900
Non-current liabilities	35,000	14,000
Current liabilities (including loan from Stalky Ltd)	59,000	36,000
Total equity and liabilities	**250,000**	**119,900**

Additional information:

i) Stalky Ltd acquired 30 million ordinary shares of Fanny Ltd on 1 January 2019 when the book value of Fanny Ltd's share capital (i.e. including preference share capital) plus reserves stood at GH¢58 million. Fanny Ltd has neither issued any share capital nor seen any change in its other reserves since the acquisition of shareholdings by Stalky Ltd. The recorded investment includes GH¢1.5 million due diligence costs incurred by Stalky Ltd to facilitate its acquisition of Fanny Ltd. Stalky Ltd has no interest in Fanny Ltd's issued preference shares.

ii) Fair value exercise conducted at the time of Fanny Ltd's acquisition revealed the following matters:

- A piece of equipment with an actual carrying amount of GH¢10 million had an assessed fair value of GH¢16 million. The estimated remaining useful economic life of this equipment at acquisition was six years.
- An in-process research and development project existed at acquisition that met the recognition criteria of ***IAS 38: Intangible Assets***. At that date, the fair value of the project

was GH¢5 million. The project started to generate economic benefits a year ago and is expected to contribute to the entity over a further four years.

- The above adjustments necessitated deferred tax provision of GH¢1 million at acquisition. By 31 December 2019, the provision required had reduced to GH¢0.9 million, and by 31 December 2020 had decreased further to GH¢0.7 million.

  Fanny Ltd has not yet incorporated the above fair value adjustments into its own financial statements. Depreciation and amortization are charged to cost of sales.

iii) During the year, Stalky Ltd sold goods worth GH¢25 million to Fanny Ltd and made a mark-up of one-third in arriving at the selling price. At 31 December 2020, inventories of Fanny Ltd included GH¢4.8 million in respect of the goods supplied by Stalky Ltd. At 31 December 2019, Fanny Ltd's inventories included GH¢3 million worth of goods purchased from Stalky Ltd at the same mark up on cost. Ignore deferred tax implications on these items.

iv) The trade receivables of Stalky Ltd included GH¢8 million receivable from Fanny Ltd. This balance did not agree with the equivalent trade payable in the books of Fanny Ltd due to payment of GH¢2 million made on 30 December 2020 by Fanny Ltd to Stalky Ltd.

v) The group's policy is to measure the non-controlling interests in subsidiaries at fair value. The fair value per ordinary share in Fanny Ltd at acquisition was GH¢1.50 and can be used for this purpose. Goodwill was impaired by 10% for the year ended 31 December 2019. A further impairment approximating 10% of the remaining goodwill is required in the current period. All impairment losses are charged to operating expenses.

Required:

Prepare the Consolidated Statement of Financial Position as at 31 December 2020 for Stalky Ltd Group.

(Total: 20 marks)

QUESTION TWO

a) BeGreen Ltd (BeGreen) is an agro-processing company which reports under International Financial Reporting Standards (IFRSs) and prepares its financial statements up to 31 December each year. The company intends to comply fully with IAS 12 Income Taxes by introducing deferred tax in its financial statements.

   On 1 January 2020, the company acquired an item of plant which cost GH¢750,000 and has a useful life of 5 years with no residual value. BeGreen enjoys capital allowance at the rate of 30%. Revenue generated by using the plant is taxable, any gain on disposal of the machine will be taxable and any loss on disposal will be deductible for tax purposes. BeGreen estimates current tax provision for the year to 31 December 2020 at GH¢10,125. The tax rate of BeGreen is 25%.

Required:

i) In accordance with ***IAS 12: Income Taxes***, explain the amounts to be reported in the Statement of Financial Position and Statement of Profit or Loss for the year ended 31 December 2020. **(5 marks)**

ii) Explain the term ***temporary difference*** and state **ONE (1)** circumstance in which temporary difference may arise. (**2 marks**)

b) Kundugu Ltd (Kundugu) is a manufacturing company located in the Savannah Region. The reporting date of Kundugu is 31 December and the company reports under International Financial Reporting Standards (IFRSs). Kundugu intends to expand its production to take advantage of emerging economic activities in the new region.

On 1 January 2020, the company entered into a lease agreement for a production equipment which has a useful economic life of 8 years. The lease term is for four years and Kundugu agrees to pay annual rent of GH¢50,000 commencing on 1 January 2020 and annually thereafter. The interest rate implicit in the lease is 7.5% and the lessee's incremental borrowing rate is 10%. The present value of lease payments not yet paid on 1 January 2020 is GH¢130,026. Kundugu paid legal fees of GH¢1,000 to set up the lease.

Required:
Prepare extracts for the Statement of Financial Position and Statement of Profit or Loss for 2020 and 2021, showing how Kundugu should account for this transaction. **(6 marks)**

c) On 1 June 2020, Karikari Ltd received a Government of Ghana grant of GH¢8 million towards the purchase of new plant with a gross cost of GH¢64 million. The plant has an estimated life of 10 years and is depreciated on a straight-line basis. One of the terms of the grant is that the sale of the plant before 31 May 2024 would trigger a repayment on a sliding scale as follows:

Intended sale in the year ended:	**Repayment amount**
31 May 2021	100%
31 May 2022	75%
31 May 2023	50%
31 May 2024	25%

The directors propose to credit the statement of profit or loss with GH¢2 million (GH¢8 million @ 25%) being the amount of the grant they believe has been earned in the year ended 31 May 2021. Karikari Ltd accounts for government grants as a separate item of deferred credit in its statement of financial position. Karikari Ltd has no intention of selling the plant before the end of its useful economic life.

Required:
Explain with computations, the appropriate accounting treatment of the above transaction in accordance with ***IAS 20 Government Grants and Disclosure of Government Assistance*** in the financial statements of Karikari Ltd for the year ended 31 May 2021**.** **(3 marks)**

d) The recognition, measurement and disclosure of an Investment Property in accordance with ***IAS 40: Investment Property*** appears straight forward. However, this could get complicated when measured either under the fair value model or under the revaluation model.

Required:

i) Define ***Investment Property*** under IAS 40 and explain the rationale behind its accounting treatment. **(2 marks)**

ii) Explain how the treatment of an investment property carried under the fair value model differs from an owner-occupied property carried under the revaluation model. **(2 marks)**

(Total: 20 marks)

QUESTION THREE

The trial balance of Caput Plc, as at 31 December, 2020 is provided below:

	GH¢'000	GH¢'000
Revenue		320,700
Cost of sales	215,700	
Closing inventories (31/12/2020) (Note i)	15,750	
Operating expenses	33,600	
Income from Investment Property		1,800
Finance costs	6,300	
Land and building at valuation (Note iii)	94,500	
Plant and equipment at cost (Note iii)	54,000	
Investment property (Note iii)	24,000	
Accumulated depreciation on plant and equipment (01/01/2020)		25,200
Trade receivables	20,250	
Bank	11,850	
Trade payables		17,700
Ordinary shares @ GH¢0.25		30,000
10% Redeemable preference shares @ GH¢1.00		15,000
Deferred Tax (Note iv)		7,800
Revaluation surplus		31,500
Retained earnings (01/12/2020)		26,250
	475,950	**475,950**

The following information is provided:

i) An inventory count at 31 December 2020 amounted to GH¢15,750,000. This includes damaged goods with a cost of GH¢1,200,000. These will require remedial work costing GH¢675,000 and could be sold for GH¢1,425,000.

ii) Finance cost is made up of the full year's preference and ordinary dividends paid.

iii) Non-Current Assets

- Land and Building were revalued at GH¢22,500,000 and GH¢72,000,000 respectively on 1 January 2020, resulting in revaluation gain of GH¢11,000,000 for the current year. At that date, the remaining life of the building was 15 years. Depreciation is on straight line basis. Ignore deferred tax implication.
- Depreciation on Plant and Equipment is at 12.5% on reducing balance basis.
- Investment Property: On 31 December 2020, a qualified surveyor valued the property at GH¢20,250,000. Caput Plc uses fair value model under **IAS 40: *Investment Property*** to value its investment property.
- It is the policy of the company to charge depreciation on full year basis.

iv) The directors have estimated the provision for income tax for the year ended 31 December 2020 at GH¢12,000,000. The deferred tax for the year ended 31 December 2020 is to be adjusted sox that the tax base of the company's net assets is GH¢18,000,000 less than the carrying amount. Assume the rate of tax is 30%.

v) On 1 October 2020, Caput Plc imported a piece of equipment from a European supplier for € 1million and agreed to settle the bill in six months' time. The relevant exchange rates are provided below:

Date	**Exchange Rate**
1 October 2020	€1:GH¢6.20
31 December 2020	€1:GH¢6.50
1 April 2021	€1:GH¢6.40

No entries have been made for the above transaction. Any exchange difference on translation should be debited or credited to operating expenses.

Required:
Prepare for Caput Plc:

a) Statement of Comprehensive Income for the year ended 31 December, 2020. **(10 marks)**
b) Statement of Financial Position as at 31 December, 2020. **(10 marks)**

(Total: 20 marks)

QUESTION FOUR

Abayie Ltd is a listed company in Ghana and operates many super markets in Ghana. The following statements relates to Abayie Ltd for the year 2020:

Statement of Profit or Loss for the year ended 31 December 2020

	2020	**2019**
	GH¢'million	**GH¢'million**
Revenue	1,255	1,220
Cost of sales	(1,177)	(1,145)
Gross profit	78	75
Operating expenses	(21)	(29)
Profit from operations	57	46
Finance cost	(10)	(10)
Profit before tax	47	36
Income tax	(14)	(13)
Net profit	**33**	**23**

Summarised Statement of Changes in Equity for the year ended 31 December 2020

	2020	**2019**
	GH¢'million	**GH¢'million**
Opening balance	276	261
Profit for the period	33	23
Dividends	(8)	(8)
Closing balance	**301**	**276**

Statement of Financial Position as at 31 December 2020

	2020 GH¢'million	2019 GH¢'million
Non-current Assets		
Property, Plant & Equipment	580	575
Goodwill	100	100
	680	675
Current Assets		
Inventory	47	46
Receivables	12	13
Cash	46	12
	105	71
Total Assets	**785**	**746**
Equity		
Share Capital	150	150
Retained Earnings	151	126
	301	276
Non-current Liabilities		
Interest-bearing borrowing	142	140
Deferred tax	25	21
	167	161
Current Liabilities		
Trade and other payables	297	273
Short-term borrowing	20	36
	317	309
Equity and Liabilities	**785**	**746**

Additional Information:

Key ratios for the supermarket sector (based on the latest available financial statement of 12 listed entities in the sector) are as follows:

- Gross Profit margin: 5.9%
- Return on Capital Employed (ROCE): 3.9%
- Net Assets Turnover: 1.93 times

Required:

Prepare a report addressed to the shareholders of Abayie Ltd, analysing the performance and position of Abayie Ltd based on the financial statements and additional information provided. The report should **also** include comparisons with key sector ratios (where appropriate).

(Total: 20 marks)

QUESTION FIVE

a) The IASB's Conceptual Framework identifies, among others, the qualitative characteristics of relevance, faithful representation, comparability and understandability.

Required:
Justify with an example each how the qualitative characteristics will apply to the treatment of tangible non-current assets. **(10 marks)**

b) In accordance with ***IAS 36: Impairment of Assets***, an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any of such indications exist, the entity shall estimate the recoverable amount of the asset. However, some assets would require mandatory testing for impairment.

Required:
Outline assets that require mandatory testing for impairment in accordance with ***IAS 36: Impairment of Assets.*** **(5 marks)**

c) Michael Onipa, a Chartered Accountant is under pressure from his employees to under declare sales for the year ended 2021 to save the company from paying the due tax for the year. He has evaluated the threat to his professional obligations to comply with the fundamental principles of good ethical behavior, as significant. He has therefore considered safeguards to eliminate or reduce the threat to an acceptable level.

Required:
Discuss **TWO (2)** safeguards Michael Onipa could consider to either eliminate or reduce the threats to an acceptable level. **(5 marks)**

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

STALKY GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

Non-current assets:	GH¢000
Property, plant and equipment (122,500 + 75,000 + 6,000 – 2,000)	201,500
Research project (5,000 – 1,000wk2)	4,000
Goodwill (wk3)	4,860
	210,360
Current assets (69,500 + 44,900 – 8,000 + 2000 – 1,200)	107,200
Total assets	**317,560**
Equity & liabilities	
Ordinary share capital	50,000
10% Preference share capital	5,300
Retained earnings (wk5)	93,045
Other reserves	11,000
Non-controlling interests	19,515
	178,860
Non-current liabilities (35,000 + 14,000 + 700 deferred tax)	49,700
Current liabilities (59,000 + 36,000 – 6,000)	89,000
Total equity & liabilities	**317,560**

Workings

1. **Group Structure**

Stalky Ltd

$\frac{30m}{40m}$ x 100

Group = 75%

NCI 25%

Fanny Ltd

Reporting date 31st December 2020

Acquisition date 1st January 2019

Post acquisition period – 2 years

2. **Net assets schedule – Fanny**

	Acquisition date GH¢000	Reporting date GH¢000	Post acquisition profit
Ordinary share capital	20,000	20,000	0
Retained earnings (58,000 – 20,000 – 2,500 – 1,000)	34,500	46,400	11,900
Other reserves	1,000	1,000	
Fair value adjustment – plant (16,000 – 10,000)	6,000	6,000	
Additional depreciation (6,000/6 = 1,000 x 2)	-	(2,000)	(2,000)
In-process research	5,000	5,000	
Amortisation (5,000/5)	-	(1,000)	(1,000)
Deferred tax	(1,000)	(700)	300
	65,500	74,700	9,200

Note: additional depreciation for only current period should be added to cost of sales. Hence, cost of sales is adjusted for GH¢1m (GH¢6m/6)

3. **Goodwill:**

	GH¢000
Cost of investment (58,000 – 1,500 legal fees)	56,500
Fair value of NCI [(40,000 – 30,000) x 1.5]	15,000
	71,500
Less: Sub's net assets at acquisition	(65,500)
Goodwill at acquisition	6,000
Impairment loss (for the year to 31/12/19)	(600)
At 31/12/2019	5,400
Impairment loss (for the year to 31/12/20)	(540)
Goodwill at reporting (31/12/2020)	4,860)

Note: Total impairment loss to date
(600 + 540) = 1,140

4. **Non-controlling interest**

	GH¢000
Fair value at acquisition (40,000 – 30,000) x 1.5	15,000
Share of sub's post-acquisition movements (25% x 9,200)	2,300
100% of sub's preference share capital	2,500
Impairment (25% x 1,140)	(285)
At 31/12/2020	19,515

5. Retained earnings	**GH¢000**
Parent: Balance b/d	89,700
Unrealized profit on inventory at end (1/4 x 4,800)	(1,200)
Due diligence costs	(1,500)
Share of sub's post-acq. earnings (75% x 9,200)	6,900
Impairment (75% x 1,140)	(855)
At 31/12/20	**93,045**

6. Unrealized profit	
On yearend inventory (1/4 x 4,800)	1,200
On year start inventory (1/4 x 3,000)	750
Movement in provision for unrealized profit	350

EXAMINER'S COMMENTS

The performance of candidates on this question was surprisingly disastrous. Most candidates failed to interpret and apply any single footnote. Majority of the candidates could only score between 0% and 8%. Perhaps, candidates need to pay attention at consolidation adjustments and how to account for them properly under examination condition.

- Some students still use very old methods of consolidation. Though this is not wrong, they failed to finish within time thereby scoring very low marks.
- It is advisable for candidates to adopt the net assets method as presented in this scheme. It makes things easier for candidates.
- Some candidates could not determine the number of ordinary shares in the subsidiary (divide the amount of share capital by the issue price). Hence, they could not determine the correct group structure.

QUESTION TWO

a)

i) Statement of Financial Position

BeGreen Ltd should recognise Non-current liability (deferred tax) of GH¢18,750 and a current liability (current tax) of GH¢10,125. **(1 mark)**

Statement of Profit or Loss

Recognise income tax expense of GH¢28,875 (i.e. GH¢10,125 + GH¢18,750) **(1 mark)**

W1

Carrying amount of plant	GH¢	
Cost at 31/12/20	750,000	
Depreciation (750,000/5yrs)	(150,000)	
Carrying amount at 31-12-20	600,000	**(1 mark)**

W2 Tax base of plant	GH¢	
Cost at 31/12/20	750,000	
Capital allowance (750,000 x 30%	(225,000)	
Tax base at 31-12-20	525,000	**(1 mark)**

W2 Temporary difference	GH¢
Carrying amount	600,000
Tax base	(525,000)
Taxable temporary difference	75,000

Therefore deferred tax (temporary dif. x tax rate) (25% x GH¢75,000) = GH¢18,750 **(1 mark)**

Journal Entry

Debit Income tax expense	GH¢18,750	
Credit Deferred Tax liability		GH¢18,750

ii) Temporary differences

IAS 12 defines temporary differences as the difference between the tax base of an asset or liability and its carrying amount in the statement of financial position. Temporary differences may arise in the following circumstances:

- Accounting depreciation does not equal tax-allowable depreciation (capital allowances).
- An item of income or expense is included in the accounting profit in one period but included in the taxable profit in another. For example, capitalized development costs are amortised over several years in the financial statements, but tax relief is given as the costs are incurred (on a cash basis).
- A right of use asset and lease liability may be recognised under IFRS 16 with the lease payments being a chargeable deduction in the period paid under the tax legislation of the relevant jurisdiction (meaning that the asset and liability would not be recognised under the tax rules).

Explanation: 1 mark
Example: 1 mark

b) **Kundugu Ltd**

Statements of financial position extract as at 31st December 2020

ASSETS	**2021**	**2020**
Non-current asset	**GHS**	**GHS**
Right-of-use asset	181,026	181,026
Accumulated Depreciation	(45,257)	(90,514)
	135,769	**90,512**
Non-current liabilities		
Lease liability	89,778	46,511
Current liabilities		
Capital sum	40,248	43,267
Finance Charge	9,752	6,733
	50,000	**50,000**

Kundugu Ltd

Statements of profit or loss extract for the year ended 31st December 2020

	2021	**2020**
Expenses	**GHS**	**GHS**
Depreciation (181,026/4)	(45,257)	(45,257)
Finance costs	(9,752)	(6,733)

WI Lease liability

year	**Balance @ start**	**Lease payments**	**Liability for the year**	**Implicit interest @7.5%**	**Balance at end**
2020	130,026	0	130,026	9,752	139,778
2021	139,778	(50,000)	89,778	6,733	96,511
2022	96,511	(50,000)	46,511	3,488	50,000
2023	50,000	(50,000)	0	0	0

W2 Right of use asset

Lease liability @ start	130,026
Lease payment at 1 January 2020	50,000
Initial direct cost	1,000
	181,026

Annual depreciation = GHS181,026 ÷ 4 years GHS 45,257

Initial recognition of right-of-use asset 1 mark

Initial recognition of lease liability 0.5 marks

Lease schedule 1.5 mark

SOFP (Extract) 2 marks

SOPL (Extract) 1 mark

6 marks

c) Government grants related to non-current assets should be credited to the statement of profit or loss over the life of the asset to which they relate, not in accordance with the schedule of any potential repayment.

The directors' proposed treatment is implying that the government grant is a liability which decreases over four years. This is not correct as there would only be a liability if the directors intended to sell the related plant, which they do not intend to do so.

Therefore, in the year ended 31st May 2021, GH¢800,000 (8 million/10 years) should be credited to the statement of profit or loss and GH¢7·2 million should be shown as deferred income (GH¢800,000 current and GH¢6·4 million non-current) in the statement of financial position.

1 mark per valid point up to maximum of 3 marks

d)

i) An investment property is land or buildings (or a part thereof) held by the owner to generate rental income or for capital appreciation (or both) rather than for production or administrative use. It would also include property held under a finance lease and may include property under an operating lease, if used for the same purpose as other investment properties.

Generally, non-investment properties generate cash flows in combination with other assets, whereas a property that meets the definition of an investment property means that it will generate cash flows that are largely independent of the other assets held by an entity and, in that sense, such properties do not form part of the entity's normal operations.

(2 marks)

ii) The revaluation model and fair value sound very similar; both require properties to be valued at their fair value which is usually a market-based assessment (often by an independent valuer). However, any gain (or loss) over a previous valuation is taken to profit or loss if it relates to an investment property, whereas for an owner-occupied property, any gain is taken to a revaluation reserve (via other comprehensive income and the statement of changes in equity). A loss on the revaluation of an owner-occupied property is charged to profit or loss unless it has a previous surplus in the revaluation reserve which can be used to offset the loss until it is exhausted. A further difference is that owner-occupied property continues to be depreciated after revaluation, whereas investment properties are not depreciated.

(2 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question has always been the bane of pitiful performance by candidates. Over 95% of candidates failed to answer or properly answer this question. Considering that the question usually consists of various IFRSs, the continuous abysmal performance by candidates is a very clear indication of their knowledge level on IFRSs.

ai) tested candidates' understanding on the calculation of deferred tax and the treatment of income taxes in the financial statements in accordance with **IAS 12**

Income Taxes. Candidates were required to calculate the net book value (carrying amount) and tax net book value (tax base) and find the difference between the two values (temporary difference). The difference multiplied by tax rate is deferred tax.

- Few candidates scored all marks available
- Most candidates were clueless about the subject matter being examined

aii) required candidates to define temporary difference and give two examples.

- Most candidates could not explain it.
- Most candidates did not attempt it
- Very few candidates were able to answer it correctly.

The b) part of the question was on accounting for a lease transaction in the books of the lessee in accordance with IFRS 16.

- The lease liability was provided, but some candidates decided to calculate it. They did not only get it wrong but wasted precious time.
- Majority of candidates could not calculate the right of used asset.
- The lease amortisation table was problematic to candidates.
- Very few candidates attempted it and got a pass mark.

Sub-question c) tested candidates' ability to account for government grant in accordance with IAS 20

- This was poorly answered.
- Majority did not attempt it.

The d) required explanation of the meaning of Investment Property

- Surprisingly, candidates could not explain the meaning of Investment property.
- Candidates demonstrated very shallow knowledge of Investment property.

QUESTION THREE

a)

CAPUT LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31/12/2020

		GH¢'000
Revenue		320,700
Cost of sales		(225,325)
Gross profit		**95,375**
Income from investment property		1,800
Total income		97,175
Operating expenses (33,600 +300 exchange loss)		(33,900)
Fair value loss on investment property	(24,000-20,250)	(3,750)
Profit before interest and tax		**59,525**
Finance cost (6,300-4,800 ordinary dividends)		(1,500)
Profit before tax		**58,025**
Ttaxation		(9,600)
Profit after tax		**48,425**
Other comprehensive income:		
Gain on revaluation - PPE		11,000
Total comprehensive income		**59,425**

b)

CAPUT LIMITED
STATEMENT OF FINANCIAL POSITION AS AT 31/12/2020

	GH¢'000	GH¢'000
Non-current assets		
Property plant and equipment		120,325
Investment property		20,250
		140,575
Current assets		
Inventory (15,750-450)	15,300	
Trade receivables	20,250	
Bank	11,850	
		47,400
Total Assets		**187,975**
Current liabilities		
Trade payables (17,700+6,500(w6))	24,200	
Current tax liability	12,000	
		36,200
Non-current liabilities		
Deferred tax liability		5,400
10% Redeemable Preference shares		15,000
		56,600

Equity

Stated capital (ordinary shares @ .25)	30,000
Retained earnings (26,250 +48,425-4,800 dividends)	69,875
Revaluation surplus	31,500
	131,375
Total Equity and Liabilities	**187,975**

WORKINGS:

1. **Depreciation**

	GH¢'000
Buildings (72,000/15)	4,800
Old plant and equipment (12.5% x (54,000-25,200))	3,600
New plant and equipment (12.5% x 6,200(w5))	775
	9,175

2. **Cost of Sales**

	GH¢'000
Per trial balance	215,700
Write down (below)	450
Depreciation charge for the year	9,175
	225,325

Inventory

			GH¢'000
Cost			15,750
Damaged goods:			
Cost		1,200	
NRV	(1,425-675)	(750)	
Write down			(450)
Value at year end			**15,300**

3. **Property Plant and Equipment**

	Land and Building	**Plant and Equipment**	**Total**
	GH¢'000	**GH¢'000**	**GH¢'000**
Cost/Valuation (1/01/20)	83,500	54,000	
Accumulated depreciation	-	25,200	
NBV (1/1/20)	**83,500**	**28,800**	
Revaluation gain	11,000	-	11,000
Addition	-	6,200	6,200
Depreciation	4,800	4,375	9,175
NBV (31/12/20)	**89,700**	**30,625**	**120,325**

Depreciation charge on building per annum = 72 m/15 years = 4.8 m

Depreciation charge on Plant and Machinery is 12.5% x (54 m-25.2 m) = 3.6 m

4. Taxation

i) Income tax

Current charge for the year	**GH¢'000**
Current charge for the year	12,000
Decrease in deferred Tax	(2,400)
Charge to SPL	**9,600**

ii) Deferred Tax	**GH¢'000**
Balance b/d	7,800
Decrease in deferred Tax	(2,400)
Balance c/d	**5,400**

NB: Deferred tax liability at year end = 30% x 18,000,000 (temporary timing difference) = GH¢5,400,000.

5. Foreign currency translation

At 1/10/2020	**GH¢'000**
Dr: Equipment (100,000 x 6.2)	6,200
Cr: Payables	6,200

Note: the non-monetary item is not subject to retranslation but the foreign currency payable should be retranslated as follows:

<u>Payables</u>	**GH¢'000**
At 1/10/2020	6,200
Exchange loss (balance)	300
At 31/12/2020 (1,000,000 x 6.50)	**<u>6,500</u>**

6. Finance cost

Finance cost is stated less the ordinary dividends of GH¢4,800,000 (i.e. 6,300,000 less preference dividends of GH¢1,500,000), as well as the net interest on defined benefit plan GH¢10,000 (i.e. GH¢20,000 interest cost – GH¢10,000 return on plan assets).

	GH¢'000
Per trial balance	6,300
Dividends (ordinary)	<u>(4,800)</u>
10% x15,000 Preference shares	**<u>1,500</u>**

80 ticks @ 0.25

(Total: 20 marks)

EXAMINER'S COMMENTS

This question was on final account of non-group limited liability company incorporating IFRSs. This was a very straight forward question that was not so demanding.

- Some candidates could not simply present the format for a statement of profit or loss or statement of financial position.
- Many candidates did not attempt this question.
- Very few candidates scored good marks in this question

QUESTION FOUR

REPORT

To: Shareholders of Abayie Limited
From: Management accountant
Date: 31/12/2020
Subject: Performance and position of Abayie Limited

Introduction

As requested, I have analyzed the performance and position of Abayie. My analysis is based on extracts from the financial statements for the year ended 31 December 2020 with comparative figures for the year ended 31 December 2019. A number of key measures have been calculated and these are set out in the attached Appendix.

Profitability

Gross profit margin has increased very slightly during the year and this is a little above the industry average. However, although net profit margin has increased significantly during the year, this is still below the industry average. The increase in net profit margin has occurred because operating expenses have fallen by over a quarter in 2020. The operating profit margin has risen from 3.8% in 2019 to 4.5% in 2020.

Given the information available, the mostly likely cause of this fall is the increase in asset lives and the resulting reduction in the depreciation expense. As might be expected, the company has a considerable investment in property, plant & equipment and depreciation would normally be significant expense. An increase in asset is relatively unusual and it is possible the directors have used this method to deliberately improve the operating and the net profit margins. (They may have been particularly concerned that the net profit margin has obviously been well below the industry average.)

On the other hand, the directors may have carried out their review of assets lives in good faith or there could be another legitimate reason why operating expenses have fallen. For example, the 2019 figure may have been inflated by a significant "one off" expense.

Other Matters

Non-current asset turnover has improved slightly, but still below the industry average. This suggests that the company uses its asset less efficiently than others in the same sector. However, increasing the asset lives will have reduced the ratio for 2020; it is possible that the company's asset turnover would have approached the sector average had the review not been carried out. It is possible that most of the investment in new property was made during 2019.

The current ratio for both years is extremely low. Supermarkets often do have relatively low current and quick ratios, but no average figure for the industry is available, so it is difficult to tell whether this is normal for the type of operation.

Short-term liquidity appears not to be a problem because the company has a positive cash balance which has increased in the year. However, the appearance of the statement of financial position suggests that this has been achieved by delaying payment to suppliers. Trade and other payables have increased by nearly 9%, while revenue and cost of sales have only increased by approximately 3%.

The debt-to-equity ratio has fallen in the year and gearing does not appear to be a problem.

Conclusion

Abayie's profit margins appear to be reasonable for a company in its industry sector. Although its net profit margin is below the industry average, this is improving. There are no apparent short-term liquidity problems.

It is possible at least some of this improvement has been achieved by deliberately reducing the operating expenses for the year. If, as seems likely, the directors wish to sell their interest in the company in the near future, improved results will help to secure a better price.

However, it is impossible to be certain that this has happened without much more detailed information about the reason for the fall in operating expenses. There may be legitimate explanation for the improvement in the company's profit margins.

APPENDIX

	2020	2019	KEY SECTOR RATIO
Gross profit margin	78/1,225 X 100%=6.2%	75/1,220 X 100%=6.1%	5.90%
Net profit margin	57/1,255 X 100%=4.5%	46/1,220 X 100%=3.8%	-
ROCE	33/1,255 X 100%=2.6%	23/1,220 X 100%=1.9%	3.90%
Net assets turnover	1,255/680 1.85 times	1,220/675 1.81 times	1.93 times
current ratio	105/317 =0.33:1	71/309 =0.23:1	-
Debt/Equity	142/301 X 100%=47.2%	140/276 X 100%=50.7%	-

Receivable collection period
Payable payment period
Inventory turnover

5 marks each for computation of rations for each year x 2 years = 10 marks
3 marks each for commentary on sales, profitability and other matters x 3 = 9 marks
1 mark for conclusion = 1 mark
20 marks

EXAMINER'S COMMENTS

Financial Statement analysis using ratios. Candidates were asked to analyse the Financial Performance and Financial Position. The question however provided some key sector ratios which were on financial performance only. This caused confusion among candidates.

- Some candidates did not know how to substitute figures from the financial statements into the equation.
- Some candidates were able to calculate correct ratios but they could not analyse them.

QUESTION FIVE

a) Qualitative characteristics as applicable to tangibles non-current assets illustrated by IAS 16

Relevance

The choice of the revaluation model as a measurement model in IAS 16 provides relevant information by showing up-to-date values. This will help give an indication as to what the entity's underlying assets are worth. Revaluations should be applied to all assets in a class, not just those with positive changes.

Faithful representation

Although the revaluation model gives relevant information this information is generally seen to be a less faithful representation than the cost model – the other measurement model allowed by IAS 16. The cost model is based on historic costs which are not the most relevant costs on which to base future decisions. However, historic cost is based on fact, so can claim to represent that which it purports to represent. The recognition criteria of IAS 16, setting out what may be recognised as part of the cost of an item of property, plant and equipment also aids verifiability of the resultant figure.

Comparability

The standard 'rules' laid down in IAS 16 mean that the financial statements of different companies can be compared as they have been prepared on the same basis. IAS 16 also facilitates comparability between companies by requiring the disclosure of accounting policies (in accordance with IAS 8) in respect of, for example, depreciation methods and measurement bases. It also requires the disclosure of both carried forward and brought forward figures, aiding comparability between this year and the previous year. IAS 16 allows comparability between the cost and the revaluation model (for example to facilitate comparison between two companies who have adopted different models) by requiring equivalent cost information to be disclosed under the revaluation model. It also requires disclosures (in accordance with IAS 8) of the effect of a change in an accounting estimate such as useful lives or depreciation rates. This facilitates comparison.

Understandability

To improve understandability IAS 16 requires disclosures to be given by each class of property, plant and equipment so it will be clear what types of asset have been purchased during the year and what types of assets have been sold. If this information was merged over one class, it would be less understandable. The format of the property, plant and equipment 'table' also aids understandability (with the movement on each class of assets clearly set out) and the disclosure of depreciation policies aids an understanding of asset lives.

(4 points @ 2.5 marks each = 10 marks)

b) Irrespective of whether there is any indication of impairment, an entity shall:

- test an intangible asset with an indefinite useful life or
- an intangible asset not yet available for use

- test goodwill acquired in a business combination for impairment annually by comparing its carrying amount with its recoverable amount.

(5 marks)

c) Safeguards Michael Onipa could consider to either eliminate or reduce the threats to an acceptable level.

- **Self-Interest Threats -** Self-interest threats may occur as a result of Mr. Onipa's financial interest. This might be his only source of employment. He might have concerns about employment security. Such financial interests might cause Mr. Onipa to be reluctant to take actions that would be against his own financial interests.

  Safeguards may include consultation with superiors within the employing organisation, for example, the audit committee or other body responsible for governance, or with ICAG.

- **Advocacy Threats –** Mr. Onipa as an employee is expected to promote the employer's position by providing financial information as long as information provided is neither false nor misleading. Any false or misleading information might create an advocacy threat.
  As a safeguard, Mr. Onipa should refuse to remain associated with information that may be misleading. If the pressure is persistent, should consider informing appropriate authorities in line with the guidance in this code of ethics. He may also wish to seek legal advice or resign.

- **Intimidation Threats -** Intimidation threats occur when a Mr. Onipa entertain fears that there is an aggressive and dominating pressure from his employer to act unethically. There might be threat of dismissal or replacement over a disagreement about the application of an accounting principle or the way in which financial information is to be reported.

- Safeguards may include consultation with audit committee, if they have one, the board, or with ICAG. He may also wish to seek legal advice or resign.

(Any 2 points @ 2.5 marks each = 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This was a theory question on a number of areas. The performance was average.
a) was on IASB Conceptual Framework characteristics of financial information.
For b), candidates were to demonstrate knowledge of mandatory testing for impairment
c) was on code of ethics. Specifically, candidates were required to identify the safeguards to eliminate or reduce threats from a given scenario and explain them. Most candidates rather attempted explaining the fundamental ethical principles.