AUGUST 2022 PROFESSIONAL EXAMINATION
CORPORATE REPORTING (PAPER 3.1)
CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME

STANDARD OF THE PAPER

The standard of the paper was moderate. The questions were based on the syllabus and were largely straight forward and of the right level. The mark allocation followed the weightings in the syllabus and was fairly allocated to each sub-question. Most questions were clearly stated and followed higher order learning outcomes. Questions that required considerable amount of work were commensurate with the allotted time and marks.

PERFORMANCE OF CANDIDATES

The general performance of candidates in this exams diet was better than previous diets. There was a marginal increase in the pass rate. Candidates who performed well demonstrated a clear understanding of the subject matter. Some candidates also showed abysmal performance. The poor level of preparedness of some candidates reflected in their poor performance.

QUESTION ONE

Below are the summarised statements of financial position of three entities: Labone Ltd (Labone), Nungua Ltd (Nungua) and Teshie Ltd (Teshie) as at 31 December 2021.

Statements of financial position as at 31 December 2021

	Labone GH¢million	Nungua GH¢million	Teshie GH¢million
Assets			
Non-current assets			
Property, plant and equipment	1,150	800	400
Investment in Nungua	560	-	-
Investment in Teshie	60	-	-
Other investment	140	-	-
	1,910	800	400
Current assets	490	200	100
Total assets	**2,400**	**1,000**	**500**
Equity and liabilities			
Equity:			
Equity shares of GH¢1 each	400	320	200
Retained earnings	1,225	440	200
Other reserves	95	-	-
	1,720	760	400
Non-current liabilities	300	80	40
Current liabilities	380	160	60
Total equity and liabilities	**2,400**	**1,000**	**500**

Additional information

i) On 1 January 2018, Labone acquired 80% of the equity share capital of Nungua for cash consideration of GH¢560 million. At the same date, Labone acquired 70% of the equity share capital of Teshie for cash consideration. Labone has correctly recorded both transactions. At this time, the balances on the retained earnings, the fair values of non-controlling interests and fair values of the identifiable net assets of Nungua and Teshie were as follows:

	Nungua GH¢million	Teshie GH¢million
Retained earnings	300	120
Fair value of non-controlling interests	140	80
Fair value of net assets	640	310

Any difference between the acquisition date fair value and book value of the identifiable net assets of both investees was due to land. Fair value adjustments should be deemed as temporary differences which are subject to tax of 20%. The fair values of identifiable net assets above are not yet adjusted for tax. Shortly after acquisition, Teshie incorporated the fair values (together with any tax effects) into its separate financial statements, but Nungua had not yet incorporated the fair values into its separate financial statements.

ii) On 1 October 2021, Labone disposed off 40% out of the 70% equity shares of Teshie for GH¢220 million. Labone credited the proceeds received to its "Investment in Teshie" and debited "Cash". At this time, it was determined that the fair value of the remaining interest

was GH¢180 million. Following the sale, Labone could only exert significant influence over Teshie.

iii) During the financial year, Labone transferred goods worth GH¢5 million every month to Teshie. By 31 December 2021, Teshie had not sold the last two months' deliveries and had included them in its year-end inventory. Labone charges three-seventh (3/7) mark-up on all sales.

iv) Labone's receivable balance include GH¢12 million owed by Teshie in respect of the last three months' sales. This balance agreed with the corresponding payables in Teshie's financial statements.

v) In its separate financial statements, Labone has accounted for its investments in both Nungua and Teshie at cost. It is the policy of Labone group to measure goodwill in full and to record non-controlling interests at fair value at acquisition. Neither goodwill of Nungua nor that of Teshie has suffered any impairment since acquisition.

vi) Labone has two internal business segments: *Construction Division* and *Merchandize Division.* On 1 July 2021, the Construction Division entered into a 1-year fixed price contract to construct an ultra-modern office complex at a contract sum of GH¢60 million for a district government agency located in the Eastern zone of Ghana. Total estimated costs at the time the contract was concluded were GH¢52 million. Actual costs incurred up to 31 December 2021 amounted to GH¢32 million. At 31 December 2021, the Directors of Labone revised its total construction costs on the project to GH¢64 million. No progress payments have been received from the agency. The only entries made have been to include the costs incurred in Labone's inventory. Labone measures progress to completion on the basis of cost.

vii) During the current year, Nungua and Teshie reported profits after tax of GH¢48 million and GH¢40 million respectively. Unless otherwise stated, it may be assumed that profits accrued evenly over the year and that no dividends were paid during the year.

(Note: Deferred tax adjustment should be ignored, unless otherwise indicated.)

Required:
Prepare the consolidated statement of financial position of the Labone Group as at 31 December 2021.

(Total: 20 marks)

QUESTION TWO

Unity Link Ltd (ULL) has enjoyed a significant market share in the southern part of Ghana over the years. However, ULL has suffered liquidity challenges due to the effects of the pandemic lock down and its subsequent restrictions. ULL's main source of income, dealings in luxurious goods, has reduced significantly because customers have shifted their demand to necessities of life.

The following transactions were undertaken by ULL:

a) ULL has entered into a contract to sell one of their gold refinery equipment on 31 January 2023 and immediately lease it back. The Finance Director in consultation with the Finance Manager has decided to classify this transaction as a non-current asset "held for sale" in its financial statements for the year ended 31 December 2022 as he rates this transaction as highly probable. The market value for the gold refinery equipment has not changed in many years and is unlikely to change in the foreseeable future. The contract states that the gold refinery equipment should be disposed off at its fair value of GH¢6 million and for ULL to lease it back over a period of 10 years. It is estimated that GH¢400,000 is needed to refurbish the gold refinery equipment and there is no legal requirement to do so. ULL has in error, treated this amount as a reduction of the asset's carrying amount at 31 December 2022 and the corresponding debit has been made to profit or loss. The gold refinery equipment is depreciated at 5% per annum using the reducing balance method and at 31 December 2022, the carrying amount after depreciation and deduction of the proposed cost of refurbishment is GH¢3.6 million. **(7 marks)**

b) ULL has established a chain of business franchise. This franchise was obtained from a foreign company. In this arrangement, dealers in luxury items, especially refined gold obtain a franchise under a brand name "Lockhert" from ULL to sell its own refined gold. The budgeted costs of obtaining a franchise from a foreign company are based on the estimated revenues from the franchise given out to local companies. These costs of obtaining a franchise are then capitalised as an intangible asset and called "Franchise cost". The Finance Director is convinced that the franchise is consumed as Franchisees produce their own refined gold. ULL currently amortises the franchise based on estimated future revenues from the franchise. For example, the franchise is estimated to generate GH¢1.6 million of revenue in total and GH¢800,000 of that revenue will be generated in year one. The intangible asset will be amortised by 50% in year one. However, industry practice is to amortise the capitalised cost less its recoverable amount over its remaining useful life. **(6 marks)**

c) ULL's franchise registration fee, which is separate from the franchise fee, is treated as an intangible asset and is initially recognised at the fair value of the consideration paid for the registration. Subsequent franchise fee which is paid yearly are subject to negotiation. The franchise contract has an embedded contingent performance conditions where a franchisee may be paid a bonus based on increase in sales. This bonus is an additional contract cost. ULL has reasoned that the only way to determine the value-in-use of the cost of franchise is when a new customer takes over from an existing one who is prepared to sell his franchise. This treatment is what prevails in the industry. **(7 marks)**

Required:

In accordance with International Financial Reporting Standards, discuss the appropriate accounting treatment of the above transactions in the financial statements of ULL.

(Total: 20 marks)

QUESTION THREE

a) Hamma Ltd is the parent company of a multinational listed group of companies. Hamma Ltd uses the dollar ($) as its functional currency. Hamma Ltd recently acquired 80% of the equity shares of Sunyani Ltd, a company located in the Bono Region of Ghana on 1 January 2022. The group's current financial year-end is 31 December 2022.

The head office of Sunyani Ltd is located in Sunyani which uses the Ghana Cedi (GH¢) as its main currency. However, its staff are spread across various locations. Consequently, half of the staff are paid in GH¢ and the other half are paid in $. Sunyani Ltd has a high degree of autonomy and is not reliant on finance from Hamma Ltd, nor do sales to Hamma Ltd make up a significant proportion of their income. All of its sales and purchases are invoiced in GH¢ and therefore Sunyani Ltd raises most of its finance in GH¢. Cash receipts are retained in GH¢. Sunyani Ltd does not operate a $ bank account. Sunyani Ltd is required by law to pay tax on its profits in GH¢.

Required:
In accordance with ***IAS 21: The Effects of Changes in Foreign Exchange Rates***, explain to the directors of Hamma Ltd, how the functional currency of Sunyani Ltd should be determined. **(5 marks)**

b) Tieku Technologies (Tieku) imports customised equipment from Europe and China for onward delivery in Ghana. It is the policy of Tieku that customers make payment for their supplies one year before delivery. Tieku does not offer discounts for advance payments. The advance payment allows Teiku to manage its import levels and to communicate delivery of supply to its customers. On 1 April 2021, Tieku received GH¢5 million from a customer to supply a customised equipment, and on 31 March 2022, Tieku delivered the equipment. Tieku's incremental borrowing rate on 1 April 2021 was 10%.

Required:
In line with **IFRS 15:** ***Revenue from Contract with Customers,*** provide explanation (with calculations and entries, if necessary) as to how the above scenario would be treated by Tieku during the year ended 31 March 2022. **(5 marks)**

c) Mr Ben Terkper, the Finance Director of Gogo Ltd, is known to be very strict in managing his staff and his dealings with other employees. A new product introduced by the company is yielding high sales. This has led to increases in cash shortages. In order to reduce the cash shortages, Management employed Hannah, a cousin of the Managing Director, Mr Okantey.

It is the policy of the company to recover cash shortages made by Cashiers by the end of the next working day. Over the years, Mr. Terkper has applied this policy without fear or favour. Hannah, since her employment as a Cashier, has made several cash shortages which have come to the attention of Mr. Terkper, the Finance Director and Mr. Okantey, the Managing Director. However, Hannah has never been asked to refund any of the cash shortages made so far. The financial statements for the year ended 31 December 2021 is being prepared and Mr. Okantey has instructed Mr. Terkper to write off the losses made by Hannah.

Required:

i) Assess the possible ethical breaches committed by Hannah, Mr. Terkper and Mr. Okantey. **(4 marks)**

ii) Recommend **FOUR (4)** possible actions that should be taken in dealing with the ethical breaches raised above. **(6 marks)**

(Total: 20 marks)

QUESTION FOUR

a) When acquiring an unquoted company in a takeover bid, the final price will be agreed by negotiation. However, the crucial role of the price-earnings ratio in arriving at the final price cannot be over emphasized.

Required:

State **THREE (3)** factors that are likely to influence the value of the price earnings ratio. **(3 marks)**

b) Tinto Ltd produces handicrafts for both local and foreign markets. The company was incorporated several years ago. The shareholders of Tinto Ltd would now like to realise their investment. In order to arrive at an estimate of what they believe the business is worth, they have identified a long established quoted company, Dingo Ltd, which has similar business, but however produces for the European market only.

Summarised financial statistics for the two companies for the most recent financial year are as follows:

	Tinto Ltd	**Dingo Ltd**
Issued shares (million)	8	20
Net assets value (GH¢ ’million)	14.4	30
Earnings per share (GH¢)	0.35	0.28
Dividend per share (GH¢)	0.20	0.24
Debt: Equity ratio	1:7	1: 6.5
Share price (as quoted on the stock market) - GH¢	0	1.60
Expected rate of growth in earnings/dividends	5%	5%

Additional Information:

1) The net assets of Tinto Ltd are the net book values of tangible non-current assets including working capital. However:

- A recent valuation of the buildings were GH¢1,500,000 above book value.
- An investment held which is designated as Equity Financial Asset at Fair Value through Profit or Loss with a carrying value of GH¢1,000,000 is fair valued at GH¢1,100,000.
- Due to a dispute with one of their clients, an additional allowance for bad debts of GH¢750,000 could prudently be made.
- An item of plant with a carrying value of GH¢800,000 is assessed to have value-in-use of GH¢760,000 and fair value less cost to sell of GH¢780,000.

2) Growth rate should be assumed to be constant per annum. Tinto Ltd's earnings growth rate estimate was provided by the marketing manager, based on expected growth in sales adjusted by normal profit margins. Dingo Ltd's growth rates are gleaned from press reports.

3) The dividend yield of Dingo Ltd approximates its cost of equity.

Required:
Compute a range of valuations for the business of Tinto Ltd, using the information available and stating any assumptions made. Use the following methods for the valuation:

i) Net assets method **(5 marks)**
ii) Price earning method **(3 marks)**
iii) Dividend growth method **(4 marks)**

(Note: Ignore tax implications.)

c) Explain the consolidation implication of a ***change in group structure*** that does not result in ***loss of control***. **(5 marks)**

(Total: 20 marks)

QUESTION FIVE

Wadie Ltd has been in operation for the past ten years. The company started operations in Kumasi with just three employees, but currently operates in all the regions in Ghana, with over five hundred employees.

The final meeting for the year of the Board of Directors of the company is to be convened and as a tradition, the Finance Manager presented analysis of the financial performance of the company for the financial year end. Below are the financial statements for the year ended 31 December 2021:

Statement of Comprehensive Income for the year 31 December

	2021	2020
	GH¢000	GH¢000
Revenue	373,578	424,486
Cost of sales	(253,604)	(254,210)
Gross profit	**119,974**	**170,276**
Impairment of financial assets	(2,477)	(1,800)
Distribution costs	(87,036)	(91,309)
Administrative expenses	(32,566)	(50,656)
Other income	2,369	10,039
Operating profit	**264**	**36,550**
Finance income	2,594	4,949
Finance costs	(2,069)	(2,765)
Profit before income tax	**789**	**38,734**
Income tax expense	(285)	(13,718)
Profit for the year	**504**	**25,016**

Statement of Financial Position as at 31 December

Assets	2021	2020
	GH¢000	GH¢000
Non-current assets		
Property-plant & equipment	178,315	187,380
Financial asset	2,793	3,726
Intangible assets	1,426	867
	182,534	**191,973**
Current assets		
Inventories	94,372	96,606
Trade receivables	100,612	47,024
Other receivables	4,713	1,184
Cash and cash equivalents	54,021	39,032
	253,718	**183,846**
Total assets	**436,252**	**375,819**
Equity & Liabilities:		
Share capital	10,000	10,000
Retained earnings	250,105	249,591
	260,105	**259,591**

Non-current liability		
Deferred taxation	9,349	11,295
Employee benefit obligations	284	1,222
Interest-bearing liabilities	1,833	3,717
	11,466	**16,234**
Current liabilities		
Current tax	713	425
Employee benefit obligations	39	168
Trade payables	160,923	96,363
Dividend payable	3,006	3,038
	164,681	**99,994**
Total equity & liabilities	**436,252**	**375,819**

Additional information:

i) Finance income relates to interest earned on the company's investment in Government of Ghana loan notes.

ii) Dividend payable represents the dividend declared or approved by shareholders at the last Annual General Meeting.

Required:

As the Finance Manager of the company, write a report to the Board of Directors, assessing the **comparative performance** of the company for the year ended 31 December 2021. Your report should use **THREE (3**) profitability ratios, **TWO (2)** liquidity ratios, **THREE (3)** efficiency ratios and **TWO (2)** gearing ratios.

(Total: 20 marks)

SUGGESTED SOLUTION

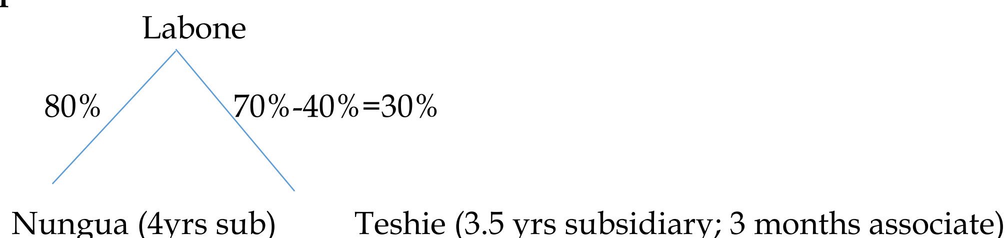
QUESTION ONE

Labone Group
Consolidated statement of financial position as at 31 December 2021

Assets:	**GH¢m**
Non-current assets:	
Property, plant and equipment (1,150 + 800 + 20)	1,970
Goodwill (W3)	64
Other investments	140
Investment in associate (W7)	182.1
	2,356.1
Current assets (490 + 200 – 4 (W8))	686
Total assets	**3,042.1**
Equity and liabilities	
Share capital	400
Retained earnings (W5)	1,455.1
Other reserves	95
Total equity attributable to shareholders of parent	1,950.1
Non-controlling interest (W4)	168
Total equity	2,118.1
Non-current liabilities (300 + 80 + 4 deferred tax(W2))	384
Current liabilities (380 + 160)	540
Total liabilities	924
Total equity and liabilities	**3,042.1**

Workings:

1. **Group structure**



Summary of percentages

	Nungua	**Teshie**		
	No Change	**Before disposal**	**Disposal**	**After disposal**
Parent's %	80%	70%	(40%)	30%
Non-controlling interests	20%	30%	-	-
	100%	100%		

2. Net assets schedule

	Acq. date GH¢m	Rep. date GH¢m	Post-acq GH¢m
Nungua			
Share capital	320	320	-
Retained earnings	300	440	140
Fair value adj. – land (640 – 320 – 300)	20	20	-
	640	780	140
Deferred tax (20% x 20)	(4)	(4)	-
	636	776	140

	Acq. date GH¢m	Rep. date GH¢m	Post-acq GH¢m
Teshie			
Share capital	200	200	-
Retained earnings	120	200	80
Fair value adj. – land (310 – 200 – 120)	(10)	-	10
	310	400	90
Deferred tax (20% x 10)	2	-	(2)
	312	400	88

Net assets at disposal date (1 Oct 21) and post-acquisition movement analysis:

Total post-acquisition movements	88
Less: Profit after disposal (1/10 – 31/12/21) (40 x 3/12)	(10)
Post-acquisition before disposal	78
At disposal (312 + 78)	390

3. Goodwill

Nungua

	GH¢m
Cost of investment	560
Fair value of NCI at acquisition	140
Fair value of identifiable net assets acquired (W2)	(636)
Goodwill at acquisition and reporting	64

Teshie

	GH¢m
Cost of investment (60 + 220)	280
Fair value of NCI at acquisition	80
Fair value of identifiable net assets acquired (W2)	(312)
Goodwill at acquisition and disposal	48

4. Non-controlling interests

	GH¢m
Nungua	
Fair value of NCI at acquisition	140
Add: NCI % of Nungua's post –acquisition movements: (20% x 140)	28
NCI at reporting	168
Teshie	
Fair value of NCI at acquisition	80
Add: NCI % of Teshie's post –acquisition movements:	
Up to disposal (30% x 78)	23.4
NCI at disposal	103.4

5. Retained earnings

	GH¢m
Labone	
Balance b/d	1,225
PUP on inventory (30% x 3/10 x 2mths x 5)	(0.9)
Loss on fixed price contract (W8)	(4)
Nungua:	
Parent's share of post-acquisition earnings (80% x 140)	112
Teshie:	
Parent's share of post-acquisition earnings	
Up to 1 October 2021 (70% x 78)	54.6
From 1 October 2021 to reporting (30% x 10)	3
Gain on disposal of subsidiary (W6)	65.4
At reporting	1,455.1

6. Disposal of 40% holding in Nungua

	GH¢m	GH¢m
Fair value of consideration received		220
Fair value of remaining interest at disposal		180
Net assets at disposal (W2)	390	
Goodwill at disposal (W3)	48	
Less: NCI at disposal (W4)	(103.4)	(334.6)
Gain on disposal		65.4

7. Investment in associate (30% remaining – Nungua)

	GH¢m
Fair value of remaining interest at disposal	180
Add: Parent's share of post-acquisition movements (W5)	3
Less: PUP on inventory (W5)	(0.9)
At reporting	182.1

8. Long-term contract

	GH¢m
Determination of contract profit/loss at 31 December 2021:	
Contract price	60
Less: total contract costs	(64)
Contract loss	(4)

Calculation of percentage of completion as at 31 December 2021
= 32/64 x 100
= 50%

Revenue to recognise for the year (50% x 60)	30
Cost for the year (50% x 64)	(32)
Provision for expected contract losses (50% x 4)	(2)
Loss to recognise within profit	(4)

Contract asset/liability:	
Actual costs to date	32
Less: contract loss recognized	(4)
Contract asset	28

GH¢32m actual cost included within inventory (current assets) would reduce by the recognised loss of GH¢4m to obtain the correct asset value of GH¢28m. Or the GH¢32m can be removed and replaced with the GH¢28m.

(100 ticks @ 0.20 marks = 20 marks)

EXAMINER'S COMMENTS

Candidates generally had a satisfactory performance in answering the question, which tested the candidates' understanding on preparing consolidated statement of financial position. Notwithstanding the satisfactory performance candidates had in their responses to the question, the following observations were made, and it is important to point out, to guide candidates of ICAG who will be sitting for the paper in the future:

- Candidates had difficulty in accounting for the change in group structure leading to loss of control. Some candidates were still consolidating the assets and liabilities of the subsidiary that was disposed.
- Though fundamental, some candidates still included pre-acquisition equity elements like share capital, and retained earnings in the consolidated statement of financial position and in addition, the investment in the subsidiaries in the consolidated statement of financial position.
- Generally, the gain on the disposal of the subsidiary upon losing control in the subsidiary was incorrectly done by almost all the candidates.
- Candidates must be familiar with the correct computation of gain or loss in the consolidated statement of financial position, whenever there is disposal leading to loss of control.

QUESTION TWO

a) This scenario would be accounted using the rules under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRS 16 *Leases*.

1 mark for stating the standards

- **IFRS 5** addresses the accounting for assets which are classified as held for sale. IFRS 5 requires a non-current asset to be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through its continuing use.

  It must be available for immediate sale in its present condition, and its sale must be highly probable within 12 months of classification as held for sale.

  United Link Ltd (ULL) has entered into a firm sales commitment, the price quoted appears reasonable and the sale will occur within the next one month (on 31 January 2023). Therefore, the finance director is on point in his position to classify the equipment as held for sale.

  The equipment would therefore be measured at the lower of carrying amount and fair value less cost of disposal, not depreciated any longer and presented under current assets.

  However, a sale and leaseback transaction is outside the scope of IFRS 5 and is covered by IFRS 16 Leases.

Any 2 valid points for 2 marks

- The GH¢400,000 to be spent on refurbishment of the gold refinery equipment should not be treated as an impairment of the asset's carrying amount at 31 December 2022.

  There is no present constructive or legal obligation as a result of a past event and there is no probable payment. ULL may decide not to carry out the refurbishment, especially as the equipment is going to be sold and then subsequently leased back.

  Therefore, the GH¢400,000 should be added back to the carrying amount of the equipment and a corresponding credit made to profit or loss. The above is in line with **IAS 37.**

Any 1 valid points for 1 mark

- A sale and leaseback transaction occurs where an entity transfers an asset to another entity and leases that asset back from the buyer/lessor.

  The first required criteria of IFRS standards is to determine whether a sale has occurred. Under IFRS 16, an entity must apply the IFRS 15 requirements to determine when a performance obligation is satisfied. If it is concluded that the

transfer of an asset is not a sale, then the seller/lessee will continue to recognise the transferred asset. In this event, a financial liability and financial asset will be recognised under IFRS 9 *Financial Instruments*.

In this case, it seems that a sale will occur on 31 January 2023 because of the binding sale commitment. If the fair value of the sale consideration equals the asset's fair value, and the lease payments are at market rates, there is no need to adjust the sales proceeds under IFRS 16.

ULL should follow IFRS 15 to account for the sale and then apply IFRS 16 to account for the lease. Thus, ULL should account for the sale and leaseback as follows:

- Derecognise the underlying asset.
- Recognise the sale at fair value.
- Recognise only the gain/loss which relates to the rights transferred to buyer/lessor.
- Recognise a right-of-use asset as a proportion of the previous carrying amount of the underlying asset.
- Recognise a lease liability.

ULL should account for the sale and leaseback at 31 January 2023 as follows:
Carrying amount of equipment is GH¢ (3.6 + 0.4) million = GH¢4 million
Assuming the present value of the lease is equivalent to the equipment's fair value at 31 January 2023, right-of-use asset would be equal to the carrying amount (GH¢4 million) of the underlying asset (equipment).

Any 3 valid points for 3 marks

b) This scenario would be accounted using rules under **IAS 38** ***Intangible Assets.***
ULL's accounting policy to base the amortisation of the intangible asset for franchise rights on revenue stemming from the rights seems reasonable and systematic. However, **IAS 38** ***Intangible Assets*** sets out a rebuttable presumption that amortisation based on revenue generated by an activity which includes the use of an intangible asset is not appropriate. This presumption can be overcome when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

The good brand embodied in the franchise rights will generate cash flows through the subscription by local companies (sub-franchisees) for the franchise rights and the estimated revenues from the franchise given out to local companies determine the amount to be spent on obtaining the franchise rights from the foreign company.

Therefore, revenue reflects a proxy for the pattern of consumption of the benefits received. Revenue and consumption of the economic benefits of the intangible asset seem highly correlated and therefore a revenue-based amortisation method seems appropriate.

The industry practice method is also acceptable and conceptually sound as it is based on an analysis of the remaining useful life of the rights and the recoverable amount. Such an approach does not contradict IAS 38's prohibition on revenue-based amortisation because it is not based on direct matching of revenue and amortisation.
The useful life of an asset is required to be reassessed in accordance with IFRS Standards at least at each financial year end. Where this results in a change in estimate, this is will be accounted for prospectively from the date of reassessment. IAS 38 also states that if a pattern of amortisation cannot be measured reliably, the straight-line method must be used.

1 mark for stating the standard
Any 2 valid points for 5 marks

c) This scenario would be accounted using rules under **IAS 38** ***Intangible Assets*** and **IAS 36** ***Impairment of Assets***

- When a franchise agreement is concluded and registered, management should make an assessment of the likely outcome of performance conditions. Contingent consideration will be recognised in the franchise's initial registration costs if management believes the performance conditions will be met in line with the contractual terms.

  Periodic reassessments of the contingent consideration should be made. Any contingent amounts which the directors of ULL believe will be payable should be included in the franchise costs from the date management believes that the performance conditions will be met. Any additional amounts of contingent consideration not included in the costs of franchise registration will be disclosed separately as a commitment.

  Amortisation of the costs of the contract will be based upon the length of the franchise agreement. The costs associated with the renegotiation of a franchise agreement should be added to the residual balance of the franchise agreement costs at the date of extending the agreement. The revised carrying amount should be amortised over the remaining renegotiated contract length.

- In line with IAS 36, the franchise right should be only charged with impairment if its carrying amount exceeds its recoverable amount, which is given by the higher of the right's fair value less cost of disposal and its value-in-use. Where either of the two cannot be reliably estimated, the known amount becomes the recoverable amount.
  Value-in-use is given by the present value of the future cash flows expected to be derived from continuing use and ultimate disposal of an asset or cash-generating unit. The current industry practice in determining value-in-use for franchise seems to be at odds with the requirements of IAS 36. However, if no clear-cut way out is available, being consistent with the general practice is a welcomed stance under IAS 8.

There is the need to determine whether it is possible to estimate value-in-use for franchise rights as individual asset or as part of a cash generating unit. To a large extent, it appears franchise right will most likely not be able to generate cash inflows that are largely independent of other assets of an entity. Hence, it may be more appropriate to include the rights in a cash generating unit for impairment assessment.

1 mark for stating the standards
Any 2 valid points for 4 marks for the first section
Any 2 valid points for 2 marks for the second section

(Total: 20 marks)

EXAMINER'S COMMENTS

This question on selected accounting standards (IFRS) was a difficult question for most candidates. It was generally not well answered though the questions were straight forward. Although, the question covered the syllabus and straight forward, most candidates were unable to express themselves adequately as expected. The response or answers produced were very scanty and not addressing the key issues. Most candidate failed to identify the applicable standards for the transactions as well as illustrate or produce the financial statement extracts.

QUESTION THREE

a) In accordance with IAS 21, the functional currency is the currency of the primary economic environment in which the entity operates. With a foreign acquisition, consideration should be given as to whether Sunyani Ltd should adopt the same functional currency as its parent, Hamma Ltd. However, Sunyani Ltd appears to be largely independent and is not reliant on Hamma Ltd for either sales or finance. It is not required therefore for Sunyani Ltd to adopt the same functional currency as Hamma Ltd which in this case is the dollar ($). Sunyani Ltd does not appear to have transactions in dollars or have a dollar bank account and it can be concluded that the dollar should not be their functional currency.

In determining its functional currency, Sunyani Ltd should consider the currency which mainly influences its sales price of goods and the currency which mainly influences its labour and other costs. This is likely to be the currency which goods are invoiced in and the currency in which costs are settled. The location of the entity's head office is irrelevant except to the extent that it is likely that the costs of running the head office are likely to be settled in the domestic currency. For Sunyani Ltd, it appears that the vast majority of their transactions are in Ghana Cedis (GH¢). All sales and purchases are invoiced in Ghana Cedis as well as approximately half of their staff being paid in Ghana Cedis (GH¢). Funds for finance are raised in Ghana Cedis (GH¢) which further suggests that Ghana Cedis should be chosen as the functional currency of Sunyani Ltd.

(5 marks)

b) IFRS 15 requires an entity to recognise revenue at an amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) the entity transfers to the customer. The amount therefore should reflect the cash selling price at the transaction date.

Where a contract requires payment by a customer significantly before performance, the contract is said to contain significant financing component, unless the prepayment is clearly for reasons other than financing.

There was no significant financing component in the arrangement between Tieku and the retailer. The upfront payment was made to secure the future supply of gadgets and not to provide Tieku with the provision of finance.
Hence, the cash selling price is the amount received.

Entries required

	DR	CR
	GH¢000	GH¢000
At 01 April 2021:		
Bank	5,000	
Contract liability		5,000

At 31 March 2022:

Contract liability	5,000	
Revenue		5,000

(Any 3 valid points for explanations for 3 marks; calculations and entries for 2 marks)

c)

i) The following fundamental ethical principles might have been breached:

Integrity

The Accountant is expected to be straightforward and honest in his dealings. By overlooking the shortages of Hannah when there is a policy for shortages to be refunded the next working day, it only suggests that the Accountant is not honest and straightforward in his dealings.

Objectivity

This principle enjoins the Accountant to be unbiased in his dealing without any undue influence. The "special" treatment given to Hannah with respect to her shortages made, can only suggest that she is treated differently from the others. The influence of the Managing Director on Hannah's case seems to have impaired Mr. Terkper's objectivity.

Professional competence

The instruction of the Managing Director to Mr. Terkper that the shortage made by Hannah should be written off, can only suggest that the professional competence the Accountant is expected to demonstrate on the job seems to be impaired also. Writing off assets (cash) that do not lack recoverability is not consistent with Accounting standards.

Professional behaviour

An Accountant is expected to conduct himself in a way that brings respect and honour and not disrepute to the Accountancy profession. The disposition of Mr. Terkper on the issue of Hannah to the point where he is "directed" by the Managing Director that losses made by her are written off. This puts the Accountancy profession into disrepute when an Accountant is expected to be aware of the condition under which an asset/receivable is written off.

(4 points @ 1 mark each = 4 marks)

ii) Possible actions that the Finance Director should take include:

- The Finance Director needs to engage the Cashiers including Hannah on the possible cause of the cash shortages they make for an immediate solution to be given.

- The Finance Director should also organize requisite training for the Cashiers including Hannah to minimize cases of cash shortages, if not eradicated entirely.

- Mr. Terkper needs to engage the Managing Director on the "special treatment" Hannah is being given on her cash shortages and its negative implication on the company. The Managing Director should be made to understand how this special treatment affects the work of the relative, Hannah herself and the other Cashiers.

- Mr. Terkper, again, needs to discuss with the Managing Director on why the cash shortages made by Hannah cannot be written off, and the need to find a way for the accumulated shortages to be recovered.

- Hannah needs to be engaged that all cash shortages made by her would be refunded from her to the company to serve as a deterrent.

- Where the Managing Director insists that the loss made by Hannah should be written off, the Finance Director must draw the attention of the company's Board to the issue.

- Mr. Terkper can always seek advice from the Professional body especially when the Board of Directors is not able to provide guidance on the matter.

(Any 4 points @ 1.5 mark each = 6 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question was in two parts: accounting standards and ethics. As usual, the accounting standards part of the question was poorly answered by most candidates. Majority of candidates were familiar and were able to express themselves by answering the functional currency relating to IAS 21. They were able to talk about the determinants for the functional currency but only a few were able to state the functional currency of the Subsidiary. With regards to the IFRS 15, they were not able to state the entries appropriately. A greater percentage of the marks earned by candidates came from the ethics part of the questions. Candidates provided reasonable responses regarding the fundamental ethical principles that apply and the possible courses of action to be taken to deal with the ethical dilemma.

QUESTION FOUR

a) Factors likely to influence the value of the price-earnings ratio include:
- Investor sentiment
- Debt acquisition/leverage
- General market instability
- Earnings reports

(Any points @ 1 mark each = 3 marks)

b)
i) Net Assets Method

	GH¢ million
Net Assets as per the draft account	14.40
Adjustments: Revaluation surplus –buildings	1.50
Fair value movement -Financial asset	0.10
Allowance for doubtful debts	(0.75)
Impairment loss	(0.02)
Value of business	15.23

(5 marks)

ii) Price-earnings Ratio Method
Value of business = Earnings x P/E Ratio

	GH¢ million
Per draft accounts [GH¢0.35 X 8 million shares]	2.80
Adjustments:	
Fair value gain	0.1
Allowance for doubtful debts	(0.75)
Impairment loss	(0.02)
Revised earnings	**2.13**

P/E Ratio Taken that the P/E Ratio of the unlisted entity must be adjusted for lack of marketability and higher risk.
P/E Ratio of Dingo = 160p/28 p =5.7
Adjusted to say 4
Value of business = GH¢2.13 X 4 = GH¢8.52 million

(3 marks)

Dividend Growth method
Value of business = Do (1+g)/(DY-g)
Do = GH¢0.20 X 8 million shares = GH¢1.6 million
DY = that of listed entity (appropriately adjusted)
= 24p/160p =15%
Adjusted to say 20%

Value of business = $\frac{\text{GH¢1.6 million X 1.05}}{0.20 - 0.05}$
= GH¢1.680/0.15
= GH¢11.2

(4 marks)

Summary	GH¢ million
P/E Ratio	8.52
Dividend growth	11.20
Net Assets	15.23

c) The following accounting implications should be noted when an NCI in a subsidiary changes but the same parent retains control:

- no gain or loss is recognised when the parent sells shares (so increasing NCI)
- a parent's purchase of additional shares in the subsidiary (so reducing NCI) does not result in additional goodwill or other adjustments to the initial accounting for the business combination
- in both situations, the carrying amount of the parent's equity and NCI's share of equity is adjusted to reflect changes in their relative ownership interest in the subsidiary. Any difference between the amount of NCI adjustment and the fair value of the consideration received or paid is recognised in equity, attributed to the parent.

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question on share/business valuation was expected to be one of the simplest for candidates. Unfortunately, some candidates could not answer this question appropriately. The net assets method was very well answered by most candidates that attempted it. Except that after determining the value of Tinto (which was the requirement) some went ahead to determine the MPS, though not specifically required. The P/E ratio method was also well attempted, but most candidates failed to adjust the earnings of Tinto to reflect the additional information provided. Also, in determining the P/E ratio of Dingo Ltd in order to discount to reflect that of Tinto, they mistakenly used the EPS of Tinto instead of being consistent with the information on Dingo. Some who were able to determine accurately the P/E ratio of Dingo but failed to discount it to reflect the risk in Tinto and used it directly. Most candidates also attempted the dividend growth method well except that after determining the dividend yield (DY) of Dingo to be used as the cost of equity, they again did not adjust it to reflect the risk in Tinto, thereby making the value of Tinto higher than expected.

QUESTION FIVE

Memorandum

To: The Board of Directors
From: The Finance Manager
Date: 3rd April 2022
Subject: **Analysis of the performance of Wadie Ltd**

This report assesses the performance of the company for the year ended 31st December 2021 using the comparative year 2020 as the benchmark. Relevant figures used or emphasized in the report can be referenced in the appendix attached. The basis of performance deployed in this report are profitability, working capital management and leverage/gearing.

Profitability

The company's sales revenue in 2021 year reduced by approximately 12%, resulting in reduction in the profit before interest and tax. The company's profit before interest and tax declined astronomically by 97.99%. The company as a result in the 2021 year generated only GH¢0.001 return on the capital of all long-term investors, compared to the returns generated in the 2020 year of GH¢0.14. The gross profit margin of the company has reduced in the 2020 year, suggesting decline in the performance of the company in controlling its cost of sales. The profit before interest and tax of the company declined also per every revenue generated in the 2021 year. In 2020, the company generated GH¢0.09 on a cedi revenue but in 2021, the performance reduced significantly to GHp0.07.

Working capital management

The current assets of the company in the 2021 year could cover the current liabilities 1.54 times. This represents a reduction in performance as in the comparative year; the company could cover the current liabilities with the available current assets by 1.84 times. The Acid-test ratio, which excludes the inventory from the company's available current assets because of its low liquidity, however, indicates an improvement in the liquidity of the company for the 2021 year.

There has also been an improvement in the trade receivables collection of the company. In 2020, it took the company average days of 139 to recover cash from customers who had purchased on credit, but in the 2021 year, the company used average days of 136.

The company also improved in the credit days received from suppliers for goods purchased on credit. There was an extension in the days used to pay suppliers by 94 days, and this is good for cash flow purpose.

Leverage/gearing

Assessing the capital structure of the company, reveals that the company is lowly geared. The proportion of long-term debt deployed by the company even reduced in the 2021 year. Though the company is lowly geared, the capacity of the company to pay its financing fixed cost or interest expense, reduced in the 2021 year. In the

year 2020, the profit from operations could cover interest cost by 13.22, but in 2021, this reduced sharply to 0.13 times.

Conclusion

The company's profitability has reduced but has experienced an improvement in its management of receivables, inventory and payables. Generally, the company's working capital management has improved. The financial risk of the company is still lowly geared but lacks the capacity to generate enough profit to cover the current interest obligation it has.

Signed
Finance Director

Appendix:

RATIOS	FORMULA	2021	2020
Profitability:			
Return on capital employed	$= \frac{Operating\ Profit}{Capital\ employed\ (SF + Long\ liab.)}\ x\ 100$	$\frac{264}{261{,}938} x100$ =0.10%	$\frac{36{,}550}{263{,}308} x100$ =13.88%
Return on capital employed	$= \frac{PBIT}{Capital\ employed\ (SF + Long\ liab.)}\ x\ 100$	$\frac{264 + 2{,}594}{261{,}938} x100$ =1.09%	$\frac{36{,}550 + 4{,}949}{263{,}308} x100$ =15.76%
Return on capital employed	$= \frac{PBIT}{Capital\ employed\ (TA - CL)}\ x\ 100$	$\frac{264 + 2{,}594}{436{,}252 - 164{,}681} x100$ =1.05%	$\frac{36{,}550 + 4{,}949}{375{,}819 - 99{,}994} x100$ =15.05%
Return on capital employed	$= \frac{Operating\ Profit}{Capital\ employed\ (TA - CL)}\ x\ 100$	$\frac{264}{436{,}252 - 164{,}681} x100$ =0.097%	$\frac{36{,}550}{375{,}819 - 99{,}994} x100$ =13.25%
Return on capital employed	$= \frac{Profit\ before\ tax}{Capital\ employed\ (TA - CL)}\ x\ 100$	$\frac{789}{436{,}252 - 164{,}681} x100$ =0.29%	$\frac{38{,}734}{375{,}819 - 99{,}994} x100$ =14.04%
Return on capital employed	$= \frac{Profit\ before\ tax}{Capital\ employed\ (SF + Long\ liab.)}\ x\ 100$	$\frac{789}{261{,}938} x100$ =0.3%	$\frac{38{,}734}{263{,}308} x100$ =14.71%
Return on Equity	$= \frac{PBIT}{Total\ Assets}\ x\ 100$	$\frac{504}{260{,}105} x100$ =0.19%	$\frac{25{,}016}{259{,}591} x100$ =9.64%
Return on Assets	$= \frac{PAT}{Equity}\ x\ 100$	$\frac{264 + 2{,}594}{436{,}252} x100$	$\frac{36{,}550 + 4{,}949}{375{,}819} x100$

		=0.66%	=11.04%
Gross profit margin	$= \frac{Gross\ profit}{Revenue}\ x\ 100$	$\frac{119{,}974}{373{,}578} x100$ =32.11%	$\frac{170{,}276}{424{,}486} x100$ =40.11%
Operating profit margin	$\frac{Operating\ profit}{Revenue}\ x\ 100$	$\frac{264}{373{,}578} x100$ =0.07%	$\frac{36{,}550}{424{,}486} x100$ =8.61%
Net profit margin	$\frac{PBIT}{Revenue}\ x\ 100$	$\frac{264 + 2{,}594}{373{,}578} x100$ =0.77%	$\frac{36{,}550 + 4{,}949}{424{,}486} x100$ =9.78%
Net profit margin	$\frac{PAT}{Revenue}\ x\ 100$	$\frac{504}{373{,}578} x100$ =0.13%	$\frac{25{,}016}{424{,}486} x100$ =5.89%
Net profit margin	$\frac{PBT}{Revenue}\ x\ 100$	$\frac{789}{373{,}578} x100$ =0.21%	$\frac{38{,}734}{424{,}486} x100$ =9.12%
Liquidity			
Current ratio	$= \frac{current\ assets}{current\ liabilities}$	$\frac{253{,}718}{164{,}681}$ =1.54:1	$\frac{183{,}846}{99{,}994}$ =1.84:1
Acid-test ratio	$= \frac{current\ assets - Invento}{current\ liabilities}$	$\frac{253{,}718 - 94{,}372}{164{,}681}$ =0.97:1	$\frac{183{,}846 - 96{,}606}{99{,}994}$ =0.87:1
Cash ratio	$= \frac{cash\ \&\ cash\ equiv.}{current\ liabilities}$	$\frac{54{,}021}{164{,}681}$ =0.3:1	$\frac{39{,}032}{99{,}994}$ =0.39:1
Efficiency			
Inventory turnover Period (days)	$= \frac{Inventory}{cost\ of\ sales} x365$	$\frac{94{,}372}{253{,}604} x365$ =136 days	$\frac{96{,}606}{254{,}210} x365$ =139 days
Inventory turnover	$= \frac{cost\ of\ sales}{Inventory}$	$\frac{253{,}604}{94{,}372}$ =2.69 times	$\frac{254{,}210}{96{,}606}$ =2.63 times

Trade receivables collection period (days)	$= \frac{Trade\ receivables}{Revenue} x365$	$\frac{100,612}{373,578} x365$ = 98 days	$\frac{47,024}{424,486} x365$ =40 days
Trade Receivables turnover	$= \frac{Credit\ sales}{Trade\ receivables}$	$\frac{373,578}{100,652}$ =3.71 times	$\frac{424,486}{47,024}$ =9.03 times
Trade payables settlement period (days)	$= \frac{Trade\ payables}{Cost\ of\ sales} x365$	$\frac{160,923}{253,604} x365$ =232 days	$\frac{96,363}{254,210} x365$ =138 days
Trade Payables turnover	$= \frac{Cost\ of\ sales}{Trade\ payables}$	$\frac{253,604}{160,923}$ =1.58 times	$\frac{254,210}{96,363}$ =2.64 times
Net Assets Turnover	$= \frac{Sales}{Total\ Assets - Current\ Liabilities}$	$\frac{373,578}{436,252 - 164,681}$ = 1.38 times	$\frac{424,468}{375,819 - 99,994}$ =1.54 times
Total Assets Turnover	$= \frac{Sales}{Total\ Assets}$	$\frac{373,578}{436,252}$ = 0.86 times	$\frac{424,468}{375,819}$ =1.13 times
Working capital cycle	= Inventory turnover Period (days)+ Trade receivables collection period (days)- Trade payables settlement period (days)	= 136 + 98 -232 = 2 days	= 139 + 40 – 138 = 41 days
Gearing:			
Interest cover ratio	$\frac{Operating\ profit}{Interest\ expense}$	$\frac{264}{2,069}$ =0.13 times	$\frac{36,550}{2,765}$ =13.22 times
Interest cover ratio	$\frac{PBIT}{Interest\ expense}$	$\frac{264 + 2,594}{2,069}$ =1.38 times	$\frac{36,550 + 4,949}{2,765}$ =15 times
Debt-to-equity ratio (%)	$\frac{Long - term\ debt}{Equity} x\ 100$	$\frac{1833}{260,105}$ =0.70%	$\frac{3,717}{259,591}$ =1.43%

Debt-to-Equity plus Debt ratio (%)	$\frac{Long - term\ debt}{Equity + Debt}\ x\ 100$	$\frac{1,833}{260,105 + 1,833}$ =0.7%	$\frac{3,717}{259,591 + 3,717}$ =1.41%

(1/2 mark for each correct computation of ratio = 10 marks; 10 marks for the report)
(Total = 20 marks)

EXAMINER'S COMMENTS
This question required a comparative analysis of the financial performance of a company over a two year period. The question was attempted by all the candidates. The question was unambiguous but rather clear to be understood by an average candidate or a well-prepared candidate. The main challenge with this question was the definition of the ratios computed. Another area of concern is the report writing and the format of writing reports. Some of the candidates failed to write a report using the appropriate format. Some candidates just quoted the ratios in the report, comparing them period to period without analysing or explaining their relationships.

CONCLUSION
As indicated earlier, candidates performed better than previous diets although the nature of responses from candidate suggest that there is evidence of ill preparation and lack of appreciation of accounting standards. It seems that the exemptions granted to most candidates is a factor of poor performance given that candidates lack the pre-requisite knowledge and competence for corporate reporting. It is suggested that candidates preparing for corporate reporting paper should thoroughly revise on the financial reporting paper even when they are exempted from taking the financial reporting paper. The exemptions criteria or policy must be re-looked at. Some candidates just register and sit the paper without the aim of passing but because he/she must register for all subjects. So, they prepare for other subject(s) they have interest in.