MARCH 2023 PROFESSIONAL EXAMINATIONS
FINANCIAL REPORTING (PAPER 2.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

EXAMINER'S GENERAL COMMENTS

The financial reporting syllabus assumes knowledge acquired in Financial Accounting, and develops and applies this further and in greater depth. The syllabus begins with the regulatory, conceptual and ethical framework of accounting. Other areas of the syllabus cover the reporting of financial information for single companies and for groups in accordance with relevant international financial reporting standards. Finally, the syllabus covers the analysis and interpretation of information from financial reports.

STANDARD OF THE PAPER

The standard of the paper compares favourably with those of previous examinations. The syllabus coverage was good and the difficulty level was appropriate for the level of cognitive domain to be examined. The level of clarity of requirements of the respective questions was excellent.

Allocation of marks was consistent with load and difficulty level of the respective questions and sub-questions. Generally stated, a candidate who prepared well in accordance with the dictates of the syllabus should be able to pass the examination.

PERFORMANCE OF CANDIDATES

On the whole, candidates performed better in the March 2023 diet than the December 2022 diet, with a 38.33% pass rate as against 19.97% respectively.
It appears few high performers were concentrated at some centres though average performance were spread across centers. There was no sign of copying and other examination malpractice.

QUESTION ONE

Below are the financial statements of Panin, Kakra and Tawia.

Statements of financial position as at 31 December 2021

	Panin	Kakra	Tawia
	GH¢million	**GH¢million**	**GH¢million**
Assets			
Property, plant & equipment	229.5	162.0	84.0
Investment:			
In Kakra	90.0		
In Tawia	32.0		
Current assets	80.5	64.0	52.0
	432.0	**226.0**	**136.0**
Equity and liabilities			
Share capital (GH¢1 per ordinary share)	52.8	30.0	20.0
Revaluation reserves	10.0	6.5	2.0
Retained earnings	274.0	145.0	76.0
	336.8	181.5	98.0
Current liabilities	95.2	44.5	38.0
	432.0	**226.0**	**136.0**

Additional information:

i) On 1 January 2021, Panin acquired 27 million equity shares in Kakra. As a consideration, Panin transferred a parcel of land with carrying value of GH¢90 million and fair value of GH¢96 million to the shareholders of Kakra. The only entries made by Panin for this transfer were to debit "investment in Kakra" and credit "property, plant and equipment" with the carrying value of the land. The balances on Kakra's retained earnings and revaluation reserves at this date were GH¢72 million and GH¢5.5 million respectively.

ii) On 1 January 2021, Kakra's internally developed brand had a fair value of GH¢11 million. The brand has an indefinite useful life, but at year-end its value-in-use was assessed at GH¢8 million.

iii) On 1 July 2021, Panin also acquired 5 million equity shares in Tawia for GH¢32 million. In the post-acquisition period, Tawia earned profit of GH¢10 million after tax and dividend and revaluation gains of GH¢500,000 after tax.

iv) In 2021, Kakra made intercompany sales to Panin for GH¢7.8 million, making a profit of 25% on cost, and GH¢1.2 million of these goods were in inventory as at 31 December 2021. Kakra also made intercompany sales to Tawia for GH¢1.5 million, making a profit of $33^{1/3}$% on cost. The entire consignment remained in inventory of Tawia as at 31 December 2021.

As a result of these inter-company transactions, closing payables for Panin and Tawia included GH¢1 million and GH¢400,000 respectively as owing to Kakra. The figures agreed with the corresponding receivables in Kakra's books.

v) Also included in the current liabilities of Kakra and Tawia, are dividends payable of GH¢4 million and GH¢1.6 million respectively. Both dividends were declared out of post-acquisition profits. Panin has not yet taken credit for its share of these dividends.

vi) On 1 January 2021, Panin sold a group of machines to Kakra at their agreed fair value of GH¢8 million. At the time of the sale, the carrying value of the machines were GH¢6 million. The estimated remaining life of the machines at the date of the sale was four years. However, the policy of Kakra is to depreciate these machines using 20% per annum.

vii) Goodwill should be charged with impairment loss of 10%.

viii) It is the policy of the group to value non-controlling interests at their proportionate share of fair value of subsidiary's identifiable net assets.

Required:
Prepare a Consolidated Statement of Financial Position of Panin Group as at 31 December 2021.

(Total: 20 marks)

QUESTION TWO

a) On 1 January 2022, Anto Ltd sold heavy duty machines costing GH¢4.5 million to Nkwaso Ltd for GH¢7.5 million, receivable in full on 1 April 2023. Nkwaso Ltd obtained control of the machines at the contract inception. The terms of the contract allowed the customer to return the machines within three (3) months. The machines are new and Anto Ltd has no relevant historical evidence of product returns or other available market evidence.

Based on their individual credit profiles at the transaction date, Anto Ltd and Nkwaso Ltd would have been charged borrowing rate of 15% and 20% respectively.

Required:
In line with ***IFRS 15*: *Revenue from Contract with Customers***, explain the correct financial reporting treatment of the above for the year ended 31 March 2022. **(7 marks)**

b) Nkonya is a local fruit processing company whose accounting year is December 2021 and prepares its financial statements using IFRSs. On 1 April 2021 Nkonya moved to a new head office and decided to sell its old premises. Agents were appointed to assist with the sale. As at 1 January 2021, the old premises had a carrying amount of GH¢8.4 million. The old premises had cost GH¢10 million and were being depreciated over their expected useful life of 50 years. The agents advised the directors that the market value of the old premises at 1 April 2021 was GH¢7 million and a commission of 1% was payable on sale. No entries have yet been made in respect of the old premises for the year ended 31 December 2021. The old premises remained unsold as at 31 December 2021, but the sale was finalised on 10 January 2022 for net proceeds of GH¢6.8 million.

Required:
Show how the property should be dealt with in the financial statements of Nkonya for the year ended 31 December 2021. **(7 marks)**

c) The Financial Accountant of Abodie Ltd is finalising the financial statements of Abodie Ltd for the year ended 31 August 2021. The following items are being considered for deferred tax purpose:

- At year end, Abodie Ltd's property, plant & equipment had tax base and carrying value of GH¢72 million and GH¢95 million respectively.

- The company's provision for decontamination costs was GH¢11 million (appropriately discounted) at the year end. Decontamination costs are tax deductible when paid.

- The company had inventory with carrying value of GH¢24 million. This did not agree with the tax base because of GH¢3 million write-down for obsolete items. Tax relief is only granted for inventories upon sale.

- The company incurred GH¢15 million in respect of new software development during the year which was capitalised and will be amortised over the next 5 years. Full year's charge is required in the first year of completion or purchase. This cost was deducted in the current year for tax purposes. The company is liable for income tax at 30%.

Required:
Compute the company's deferred tax liability at 31 December 2021. **(6 marks)**

(Total: 20 marks)

QUESTION THREE

Kinbuka Ltd has been in operation for the past five years. As a Public Listed Entity, the company uses full IFRSs in preparing its financial statements. Management of the company is preparing financial statements for the year ended 31 December 2021, and has produced the following trial balance for the period.

		GH¢	GH¢
Revenue			1,171,000
Inventories (31/12/2020)		80,000	
Purchases		543,000	
Administrative expenses		180,000	
Marketing & distribution expenses		55,000	
Non-current assets (cost)-31/12/2020:	Note (ii)		
Furniture & fittings		88,000	
Motor vehicles		180,000	
Office equipment		30,000	
Intangible assets		50,000	
Accumulated depreciation -31/12/2020:	Note (ii)		
Furniture & fittings			18,000
Motor vehicles			62,400
Office equipment			13,000
Intangible assets			6,000
Taxation account	Note (iii)	28,000	
Trade & other receivables		151,000	
Trade payables			125,000
Deferred tax- 31/12/2020	Note (iii)		21,000
13% GOG Bond	Note (iv)	19,000	
Interest income	Note (iv)		2,600
Bank account	Note (v)	283,000	
Share Capital			200,000
Retained earnings			68,000
		1,687,000	**1,687,000**

The following additional information is relevant in preparing the financial statements of the company for the year ended 31 December 2021:

i) Inventories at 31 December 2021 were valued at GH¢65,000.

ii) On 1 November, 2021, one of the company's vehicles used in selling and distributing its finished goods was involved in an accident; the vehicle was badly damaged beyond repairs as a result of the accident. This vehicle was acquired by the company on 1 January, 2019 for GH¢95,000. The company, however, has insured the vehicle and thus on 4 November, 2021 wrote to the insurance company for the claim, to purchase a new vehicle. In response, the Insurance company picked and assessed the damaged car, and on 8 January 2022 paid the company a claim of GH¢80,000.

There were no other changes in non-current assets for the year ended 31 December 2021. Non-current assets are depreciated or amortised as follows:

Furniture & fittings	20% of cost
Office equipment, Motor vehicles and intangible assets	10% of cost

No depreciation is charged on non-current assets in the year of de-recognition. Depreciation or amortisation expense is charged to cost of sales.

iii) Taxation account represents the aggregate amount paid by the company as self-assessment tax on its estimated profit for the four-quarters of the 2021 year of assessment. Kinbuka Ltd in the year 2021, had officers of Ghana Revenue Authority (GRA) auditing its tax records for the 2019 and 2020 years of assessment. All the prior years before the 2019 year of assessment have already been audited by GRA. The audit report of GRA received and agreed by Kinbuka Ltd in November 2021 revealed the following:

Year of Assessment	**Current tax provided for the year GH¢**	**Tax liability for the year from Tax audit GH¢**
2019	45,000	43,000
2020	57,800	67,600

The company paid in full the current tax provided for the years 2019 and 2020 in the first half of the years 2020 and 2021 respectively. However, the differences arising from the tax audit have not been provided for in the above balances and are yet to be settled by the company. Current tax expense and increase in deferred tax liability for the year ended 31 December, 2021 have been estimated at GH¢35,300 and GH¢3,750 respectively.

iv) As part of cash flow management, the company at the beginning of the current year, purchased a 13%, GH¢20,000 5-year bond at a price of GH¢19,000, incurring brokerage fee of 2% of the par value. The bond will be redeemed at a premium of 5% over its par value. The brokerage fee paid is included in the administrative expenses. The business model of Kinbuka Ltd in relation to this bond is to hold it till maturity while availing itself to sell when there is a good opportunity to do so. The effective interest rate of the bond is 15% and its fair value at 31 December 2021 is GH¢21,000.

v) Bank account represents the cash book balance as at 31 December 2021. The Bank statement, however, reveals a balance of GH¢353,000 as at this date. There are only two reconciling differences between the two figures: Cheques recorded at the credit side of the cash book but yet to be presented to Bank for payment and bank charges yet to be recorded in cash book. The value of cheques yet to be presented to Bank for payment is GH¢72,000. All bank charges are classified as administrative expenses.

Required:

Prepare the ***Statement of Profit or Loss and Other Comprehensive Income*** of Kinbuka Ltd for the year ended 31 December, 2021 and the ***Statement of Financial Position*** as at that date. Show clearly all relevant workings.

(Total: 20 marks)

QUESTION FOUR

Boomu Ltd is an agro-processing company with strong competition from Sintim Ltd. The Board of Directors of Boomu Ltd wants to measure the performance of the company against its competitor. Below are the statement of comprehensive income of the two companies for the year ended 31 December 2021, and the statement of financial positions as at that date.

Statement of Comprehensive Income

	Boomu Ltd	**Sintim Ltd**
	GH¢000	**GH¢000**
Revenue	619,085	956,200
Cost of sales	(424,700)	(762,400)
Gross profit	194,385	193,800
Administrative expenses	(58,635)	(84,940)
Other income	6,335	9,270
Operating profit	142,085	118,130
Finance cost	-	(3,000)
Profit before income tax	**142,085**	**115,130**
Income tax expense	(23,460)	(34,220)
Profit for the year	**118,625**	**80,910**

Statement of Financial Position

	GH¢000	**GH¢000**
Non-current assets		
Property-plant & equipment	231,636	197,884
Intangible asset	105,320	111,928
	336,956	**309,812**
Current assets		
Inventories	33,960	37,480
Trade receivables	26,216	3,836
Cash and cash equivalents	91,328	42,472
	151,504	**83,788**
Total assets	**488,460**	**393,600**
Equity & Liabilities:		
Share capital	20,000	30,000
Retained Earnings	390,536	283,820
	410,536	**313,820**
Non-current liability		
Deferred taxation	18,120	13,948
20% Loan notes	-	30,000
	18,120	**43,948**
Current liabilities		
Trade and other payables	42,904	28,040
Current tax	16,900	7,792
	59,804	**35,832**
Total equity & liabilities	**488,460**	**393,600**

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 using ratio analysis. Your report should use **THREE (3**) profitability ratios, **TWO (2)** liquidity ratios, **THREE (3)** efficiency ratios and **TWO (2)** gearing ratios.

(Total: 20 marks)

QUESTION FIVE

a) The Conceptual Framework for Financial Reporting identifies faithful representation as a fundamental qualitative characteristic of useful financial information.

Required:
Explain why ***faithful representation*** is important. **(5 marks)**

b) Comparability is one of the enhancing qualitative characteristics of useful financial information. Comparability improves usefulness of financial statements and it is achieved by consistency.

Required:
Explain the role of consistency in relation to changes in accounting policy and the need for comparability. **(5 marks)**

c) Lana Ltd is a public listed company in Ghana. The company is located in the Northern Region of Ghana. The company operates in the manufacturing sector of Ghana. The company prepares its accounts to 31 December each year.

During the year ended 31 December 2021, Lana Ltd built a head office. The costs associated with the construction of the head office are as follows:

	GH¢ million
Fees for environmental certifications and building permits	0.5
Leasehold Land acquisition	10
Architect and engineer fees	1.0
Construction material and labour costs (including unused materials)	6.5
	18.0

At 31 October 2021, the date when the head office extension became available for use, the cost of unused materials on site amounted to GH¢0.5 million. At that date, the total borrowing costs incurred on a loan which was used to specifically finance the head office extension amounted to GH¢0.8 million. The estimated useful life of the building was 40 years.

Required:
With reference to IFRSs, determine the initial cost to be capitalised, the depreciation charge for the yearend 31 December 2021 and the carrying amount as at 31 December 2021.

(5 marks)

d) ***IFRS 3: Business Combinations*** defines fair value consistently with ***IFRS 13: Fair Value Measurement***. IFRS 3 requires the acquiree's assets and liabilities to be incorporated into the consolidated financial statements at their fair values rather than at their carrying amounts.

Required:

i) Explain the meaning of ***fair value*** in accordance with IFRS 13. **(2 marks)**

ii) Explain the reasons why acquiree's assets and liabilities are measured and recognised at their fair value within the consolidated financial statements. **(3 marks)**

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

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

	GH¢ million
Assets:	
Property, plant & equipment (229.5+162Wk2–1.9Wk5)	389.6
Brand	8
Investment in associate (Wk6)	34.54
	432.14
Current assets (80.5+64–0.24Wk2–1interco rec+0.4div rec.)	143.66
Total assets	**575.80**
Equity and liabilities	
Share capital	52.8
Revaluation reserves (Wk5)	11.03
Retained earnings (Wk5)	357.95
Total equity attributable to shareholders of parent	421.78
Non-controlling interest (Wk4)	18.92
Total equity	440.70
Current liabilities (95.2+44.5–3.6interco. div–1interco pay)	135.10
Total equity and liabilities	**575.80**

Workings *(except Wk1 all workings in GH¢ million)*:

Wk1 Group structure

Panin

27 x 100 = 90%   5x100 = 25%
30   NCI=10%   20

Kakra   Tawia
(1 year sub.)   (6 months ass.)

Wk2 Net assets schedule

	Acq. date	Rep. date	Post-acq
Kakra			
Share capital	30	30	-
Revaluation reserves	5.5	6.5	1
Retained earnings	72	145	73
Brand	11	8	(3)
Unrealised profit			
On sale to Panin (20% x 1.2)	-	(0.24)	(0.24)

On sale to Tawia (25% x 1.5 x 25%)	-	(0.09)	(0.09)
	118.5	**189.17**	**70.67**

Wk3 Goodwill – Kakra

Cost of investment	96
Less: Kakra's % of net assets at acquisition (90% x 118.5)	(106.65)
Bargaining gain on purchase	**(10.65)**

Alternatively

Cost of investment	96
NCI'% of net assets at acquisition (10% x 118.5)	11.85
Less: Net assets at acquisition	(118.5)
Bargaining gain on purchase	**(10.65)**

Wk4 Non-controlling interests

NCI's % of net assets at reporting (10% x 189.17)	18.92

Alternatively

At acquisition (Wk3)	11.85
Less: NCI's % of post-acquisition (10% x 70.67)	7.07
To CSFP	**18.92**

Wk5 Reserves

Retained earnings

Panin	
Balance b/d	274
Non-financial consideration (96 – 90)	6
Machine transfer (see below)	(1.9)
Post-acquisition dividend	
Kakra: (90% x 4)	3.6
Tawia (25% x 1.6)	0.4
	282.1
Kakra	
Parent's % of post-acquisition earnings (90% x (70.67 – 1)Wk2)	62.70
Bargaining gain	10.65
Tawia	
Parent's % of post-acquisition earnings (25% x 10)	2.5
To CSFP	**357.95**

Machine transfer

Carrying amount with transfer (8 – (8 x 20%))	6.4
Carrying amount without transfer (6 – (6x1/4))	4.5
Overstated amount	1.9

Revaluation reserves	
Panin: Balance b/d	
Kakra: Parent's % of post-acquisition (90% x 1Wk2)	10
Tawia: Parent's % of post-acquisition (25% x 0.5)	0.9
To CSFP	0.13
	11.03

Wk6 Investment in associate

Cost of investment	32
Add: Parent's % of profit (Wk5)	2.5
Add: Parent's % of revaluation (Wk5)	0.13
Less: Unrealised profit (Wk5)	(0.09)
To CSFP	**34.54**

(Total: 20 marks)

QUESTION TWO

a) IFRS 15 requires revenue to be recognised as each performance obligation is fulfilled. An entity satisfies a performance obligation by transferring control of a promised good or service to the customer, which could occur over time or at a point in time.

In this arrangement, Anto Ltd has delivered the machines and transferred control to the customer but the entity cannot recognise revenue. This is because the existence of the right of return and the lack of relevant historical evidence means that the Anto Ltd cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur in accordance with paragraphs 56–58 of IFRS 15. Consequently, revenue is recognised after three months (i.e. on 31 March 2022) when the right of return lapses.

The contract includes a significant financing component, in accordance with paragraphs 60–62 of IFRS 15 as Abeiku Dealer has to wait for two years before receiving the payment. The credit advanced would attract annual interest of 20%.

The following journal entries illustrate how the entity accounts for this contract:

- ***When the product is transferred to the customer***

	GH¢000	GH¢000
Asset for right to recover product to be returned	4,500	
Inventory		4,500

- ***During the three-month right of return period, no interest is recognised in accordance with paragraph 65 of IFRS 15 because no contract asset or receivable has been recognised***
- ***When the right of return lapses (the product is not returned):***

	GH¢000	GH¢000
Receivable ($7600/1.2^2$)	5,278	
Inventory		5,278
Cost of sales	4,500	
Asset for right to recover product to be returned		4,500

Note: Interest charges will start from next financial year.

(7 marks)

b) Nkonya

Statement of profit or loss (extract) for the year ended 31 December 2021

	GH¢000
Depreciation expense	(100)
Impairment charge (1,370+130)	(1,500)

Nkonya

Statement of financial position (extract) as at 31 December 2021

	GH¢000
Current assets	
Held for sale	6,800

Workings

	GH¢000
Carrying amount @ 1 Jan 2021	8,400
Less: 3 months dep (10,000/25 x 3/12)	(100)
Carrying amount @ reclassification	8,300
Impairment charge	(1,370)
Fair value less cost to sell (7 – (1% x 7))	6,930
Additional charge	(130)
Revised carrying amount @ 31 Dec 2021	6,800

Note: the eventual sale of the property constitutes an adjusting event. Held for sale is not subject to depreciation.

(7 marks)

c)

	Carrying amount	Tax base	Taxable/ (deductible) Temporary difference	Deferred tax @ 30%
	GH¢000	GH¢000	GH¢000	GH¢000
Property, plant and equipment	95,000	72,000	23,000	6,900
Provision for contamination	(11,000)	-	(11,000)	(3,300)

Inventory	24,000	27,000	(3,000)	(900)
Development	12,000	-	12,000	3.600
Total	**120,000**	**99,000**	**21,000**	**6.300**

Deferred tax liability (net) is GH¢6.3 million.

(6 marks)

(Total: 20 marks)

QUESTION THREE

Kinbuka Ltd
Statement of profit or loss for the year ended 31st December 2021

	GH¢
Revenue	1,171,000
Cost of sales (W7)	(592,100)
Gross profit	578,900
Other income (W1)	4,000
Administrative expenses (W8)	(181,600)
Marketing & distribution expenses	(55,000)
Profit before interest and tax	346,300
Finance income (W11)	2,910
Profit before tax	349,210
Tax expense (W3)	(46,850)
Profit for the year	**302,360**
Other comprehensive Income:	
FVOCI changes (W11)	1,290
Total Comprehensive income	**303,650**

Kinbuka Ltd
Statement of financial position as at 31st December 2021

	GH¢	GH¢
Non-current assets:		
Property, plant & equipment (W10)		99,500
Financial asset (W11)		21,000
Intangible assets (W10)		39,000
		159,500
Current assets		
Inventory	65,000	
Trade receivables (W12)	231,000	
Bank (W13)	281,000	577,000
Total assets		**736,500**

Equity & Liabilities:		
Equity:		
Share capital		200,000
Retained earnings (W14)		370,360
FVOCI reserve(W11)		1,290
		571,650
Non-current liabilities:		
Deferred tax liability (W5)		24,750
Current tax liabilities		
Trade payables	125,000	
Current tax liability(W4)	15,100	140,100
Total Equity & Liabilities		**736,500**

Workings:

1. **Gain or loss on derecognition of non-current asset**

Date of accident is 1 November 2021, and the motor vehicle on this date became damaged beyond repairs. Thus, the asset is derecognised on this date. Since, the asset is insured, insurance claim receivable becomes the benefit to be derived upon derecognition. This was however, not known at this date, and became known after the year end. In accordance IAS 10, *Events after the Balance sheet date*, the payment of the claim by the Insurance company is an adjusting event, and hence should be used in determining gain or loss upon derecognition of the asset.

Acquisition date of asset = 1 January 2019

Depreciation = 10/100 x GH¢95,000 = GH¢9500

Accumulated depreciation = 2years x GH¢9,500 = GH¢19,000

No depreciation is charged in the year of derecognition.

Carrying value at date of derecognition = GH¢95,000 – GH¢19,000 = GH¢76,000

The insurance claim as at the year-end had not been received, and it is recorded as follows:

Debit	Insurance claim receivable	GH¢80,000	
Credit	Asset disposal/derecognition a/c		GH¢80,000

The asset is derecognised by the carrying value of GH¢76,000 (i.e cost of GH¢95,000 and Accumulated depreciation of GH¢19,000).

Gain upon derecognition of GH¢4,000 (GH¢80,000 – GH¢76,000) is recognized in the profit or loss account.

2. **Under/(over)provision of tax**

Year	**Current tax**	**Audit tax**	**Difference**
	GH¢	**GH¢**	**GH¢**
2019	45,000	43,000	(2,000)
2020	57,800	67,600	9,800
			7,800

3. **Tax expense Computation**

	GH¢
Current tax	35,300
Under-provision (W2)	7,800
Deferred tax	3,750
	46,850

4. **Current tax liability**

	GH¢
Current tax expense	35,300
Self-assessment tax	(28,000)
Under-provision of tax	7,800
	15,100

5. **Deferred tax liability**

	GH¢
Balance b/f	21,000
P&L	3,750
	24,750

6. **Depreciation**

	GH¢
Furniture & fittings (20/100 x 88000)	17,600
Motor vehicles (10/100 x (180000-95000)	8,500
Office equipment (10/100 x 30000)	3,000
Intangible assets (10/100 x 50000)	5,000
	34,100

7. **Cost of sales**

	GH¢
Opening Inventory	80,000
Purchases	548,000
Closing inventory	(65,000)
	563,000
Depreciation (W6)	34,100
	597,100

8. **Administrative expenses**

	GH¢
Balance per trial balance	180,000
Brokerage fee	(400)
Bank charges	2,000
	181,600

9. **Bank charges**

	GH¢
Cash book balance	283,000
Unpresented cheques	72,000
	355,000
Bank balance	353,000
	2,000

10. **Property, Plant & Equipment**

	GH¢
Furniture & fittings (88000-18000-17600)	52,400
Motor vehicles (180000-62400)-76000-8500)	33,100
Office equipment (30000-13000-3000)	14,000
	99,500
Intangible assets (50000-6000-5000)	**39,000**

11. **Financial Asset**

The financial asset is a debt instrument, and the business model of the company concerning this investment is to hold the bond till maturity, but can also sell it when there is a good price to do that. The bond is thus measured at **fair value through other comprehensive**. The asset is initially recognized at the cost of GH¢19,400 (19,000 + 400 (issue cost)). The total net finance income (brokerage fees, interest income and the redemption premium) is amortised like asset measured at amortised cost. However, at the year-end the asset is fair valued, and changes are taken to other comprehensive income.

Years	**Opening balance**	**Interest @15%**	**Coupon Received**	**Balance at end**	**Fair value at year end**	**FVOCI reserve**
	GH¢	**GH¢**	**GH¢**	**GH¢**	**GH¢**	**GH¢**
2021	19,400	2,910	(2,600)	19,710	21,000	1,290

12. **Trade & Other receivables**

	GH¢
Balance per Trial balance	151,000
Insurance claim receivable	80,000
	231,000

13. **Bank Balance**

	GH¢
Balance per Trial balance	283,000
Bank charges	(2,000)
	281,000

14. **Retained earnings**

	GH¢
Balance b/f	68,000
Profit for the year	302,360
	370,360

(100 ticks in all @0.20 per tick = 20 marks)

QUESTION FOUR

Boomu Ltd and Sintim Ltd

Memorandum

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

The performance of Boomu Ltd for the year ended 30 June 2022 has been assessed in this report. The performance of Sintim, a competitor, is used as the benchmark in assessing the performance of the company for the year ended 30 June 2022. The attached appendix has the figures or computations underlying the report. Reference should therefore be made to it for better appreciation of the figures used or emphasized. The company's performance assessment has been made on the bases: profitability, working capital management and gearing.

Profitability

The revenue of the company for the year to 30 June 2022 was lower by that of the competitor by 35.26%. However, profit generated for all investors by the company was higher than the competitor's. Whereas the company recorded profit of 34.61% on its investment, the competitor generated returns of 34.36% for its investors. In addition, the earnings generated for only ordinary shareholders after taking into consideration finance cost and tax expense is 28.90% for the company but 25.78% for Sintim Ltd. The trading performance of the company as measured by the gross profit margin is higher than the competitor's. This represents a better performance of the company in controlling its cost of sales than the competitor.

Working capital management

The liquidity of the company is assessed using the current ratio and the acid-test ratio. The current ratio indicates a value of 2.53 times, which is higher than Sintim Ltd.'s ratio of 2.34 times. The company thus has a stronger liquidity position than the competitor. This is further corroborated by the acid-test ratio which shows a higher ratio of 1.97 times compared to 1.29 times, suggesting that upon excluding even inventory, the remaining assets of Boomu Ltd is able to cover more of its current liabilities than what Sintim Ltd.'s remaining assets can cover for its liabilities.

On inventory management, the inventory turnover is employed in assessing the performance of the two companies. The computed ratios, as can be referred from the appendix, are 29 days and 18 days for Boomu Ltd and Sintim Ltd respectively. The company's performance trails the competitor's in inventory management, as Sintim Ltd is able to use fewer days in getting its inventories sold.

Analysis of the receivable collection period of the two companies also reveals that Boomu Ltd takes 15 days in collection of its receivables, whiles Sintim Ltd uses

only 1 day to collect its receivables. The company's performance trails that of the competitor in this regard.
On creditors' management, the trade payables settlement period for Boomu Ltd is higher than the competitor's. This suggests that suppliers of the company give longer time for payment of credit purchases than what the competitors receive from their suppliers. The company's performance on trade payables management is therefore better than the competitor's because of the increased in spontaneous finance derived from the longer credit days given by its suppliers.

Gearing
The company is an equity-financed company and therefore shareholders do not have any financial risk. The competitor, Sintim Ltd, however, has debt in its capital structure. Sintim Ltd.'s shareholders face financial risk but Boomu Ltd' shareholders have no financial risk.

Conclusion
The company performed better than the competitor in terms of profitability and liquidity. The management of trade payables of the company is also better than the competitor's. However, trade receivables and inventory management of the company trails the performance of the competitor.

Appendix

RATIOS	**FORMULA**	**Boomu Ltd**	**Sintim Ltd**
Profitability:			
Return on capital employed	$= \frac{PBIT}{Capital\ employed}\ x\ 100$	$\frac{142,085}{410,536} x100$ =34.61%	$\frac{118,130}{343,820} x100$ =34.36 %
Return on Equity	$= \frac{PAT}{Equity}\ x\ 100$	$\frac{118,625}{410,536} x100$ = 28.90%	$\frac{80,910}{313,820} x100$ =25.78%
Gross profit margin	$= \frac{Gross\ profit}{Revenue}\ x\ 100$	$\frac{194,385}{619,085} x100$ =31.40%	$\frac{193,900}{956,200} x100$ =20.28%
Liquidity			
Current ratio	$= \frac{current\ assets}{current\ liabilities}$	$\frac{151,504}{59,804}$ =2.53 times	$\frac{83,788}{35,832}$ =2.34 times
Acid-test ratio	$= \frac{current\ assets - Inventory}{current\ liabilities}$	$\frac{151,504 - 33,960}{59,804}$ = 1.97 times	$\frac{83,788 - 37,480}{35,832}$ =1.29 times

Efficiency			
Inventory turnover (days)	$= \frac{Inventory}{cost\ of\ sales}\ x365$	$\frac{33{,}960}{424{,}700} x365$ =29 days	$\frac{37{,}480}{762{,}400}\ x365$ =18 days
Trade receivables collection (days)	$= \frac{Trade\ receivables}{Revenue}\ x365$	$\frac{26{,}216}{619{,}085} x365$ =15 days	$\frac{3{,}836}{956{,}200} x365$ =1 day
Trade payables settlement period	$= \frac{Trade\ payables}{Cost\ of\ sales}\ x365$	$\frac{42{,}904}{424{,}700} x365$ =37days	$\frac{28{,}040}{762{,}400}\ x365$ =13 days
Gearing:			
Interest cover ratio	$\frac{PBIT}{Interest\ expense}$	*not applicable*	$\frac{118{,}130}{3{,}000}$ =39.38 times
Debt-to-equity ratio (%)	$\frac{Long-term\ debt}{Equity}$	$\frac{0}{410{,}536}$ =0%	$\frac{30{,}000}{313{,}820}$ =9.56%

(1/4 mark for each correct computation of ratio = 5 marks; 15 marks for the report)
(Total = 20 marks)

QUESTION FIVE

a) The Conceptual Framework for Financial Reporting implies that the two fundamental qualitative characteristics (relevance and faithful representation) are vital as, without them, financial statements would not be useful, in fact they may be misleading. As the name suggests, the four enhancing qualitative characteristics (comparability, verifiability, timeliness and understandability) improve the usefulness of the financial information.

Therefore, financial information which is not relevant or does not give a faithful representation is not useful (and worse, it may possibly be misleading); however, financial information which does not possess the enhancing characteristics can still be useful, but not as useful as if it did possess them. In order for financial statements to be useful to users (such as investors or loan providers), they must present financial information faithfully, i.e., financial information must faithfully represent the economic phenomena which it purports to represent (e.g., in some cases it may be necessary to treat a sale and repurchase agreement as an in-substance (secured) loan rather than as a sale and subsequent repurchase).

Faithfully represented information should be complete, neutral and free from error. Substance is not identified as a separate characteristic because the IASB says it is implied in faithful representation such that faithful representation is only possible if transactions and economic phenomena are accounted for according to their substance and economic reality.

(5 marks)

b) The main objective of financial statements is to provide information that is useful to a wide range of users for the purpose of making economic decisions. Therefore, it is important that the activities and events of the entity, as expressed within the financial statements, are understood by users, meaning that their usefulness and relevance is maximised. This can present management with a problem because clearly not all users have the same (financial) abilities and knowledge. For understandability, management are allowed to assume users do have a reasonable knowledge of accounting and business and are prepared to study the financial statements diligently. Importantly, this characteristic cannot be used by management to avoid disclosing complex information that may be relevant in user decision-making.

However, management must recognise that too much or overly complex disclosure can obscure the more important aspects of an entity's performance, i.e., important information should not be 'buried' in the detail of unfathomable information. Comparability is the main tool by which users can assess the performance of an entity. This can be done through trend analysis of the same entity's financial statements over time (say five years), or by comparing one entity with other (suitable) entities (or business sector averages) for the same time period. This means that the measurement and disclosure (classification) of like transactions should be consistent over time for the same entity, and (ideally) between different entities. Consistency and comparability are facilitated by the existence and disclosure of accounting policies.

The above illustrates the close correlation between comparability and consistency. However, it is not always possible for an entity to apply the same accounting policies every year; sometimes they have to change (e.g., because of a new accounting standard or a change in legislation). Similarly, it is not practical for accounting standards to require all entities to adopt the same accounting policies. Thus, if an entity does change an accounting policy, this breaks the principle of consistency. In such circumstances, IFRSs normally require that any reported comparatives (previous year's financial statements) are restated as if the new policy had been in force when those statements were originally reported. In this way, although there has been a change of policy, comparability has been maintained.

It is more difficult to address the issue of consistency across entities; as already stated, accounting standards cannot prescribe the use of the same policy for all entities (this would be uniformity). However, accounting standards do prohibit certain accounting treatments (considered inappropriate or inferior) and they do require entities to disclose their accounting policies, such that users become aware of differences between entities, and this may allow them to make value adjustments when comparing entities using different policies.

(5 marks)

c) Lana Ltd

	GH¢ million
Leasehold land acquisition	10
Fees for environmental certifications and building permits	0.5
Architect and engineer fees	1
Construction material and labour costs	6.5
Unused material	(0.5)
Borrowing costs	0.8
Initial cost to be capitalized	18.3
Depreciation (18.3/40 x 2/12)	(0.08)
Carrying amount at 31 December 2021	**18.22**

(5 marks)

d)

i) IFRS 13 ***Fair Value Measurement*** defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In order to account for an acquisition, the acquiring company must measure the cost of what it is accounting for, which will normally represent:

- The cost of the investment in its own statement of financial position

- The amount to be allocated between the identifiable net assets of the subsidiary, the non-controlling interest and goodwill in the consolidated financial statements.

(2 marks)

ii) The subsidiary's identifiable assets and liabilities are included in the consolidated accounts at their fair values for the following reasons:

- Identifiable assets and liabilities recognised in the accounts are those of the acquired entity that existed at the date of acquisition. Assets and liabilities are measured at fair values reflecting conditions at the date of acquisition. The following do not affect fair values at the date of acquisition and are therefore dealt with as post-acquisition items.
- Consolidated accounts are prepared from the perspective of the group, rather than from the perspectives of the individual companies. The book values of the subsidiary's assets and liabilities are largely irrelevant, because the consolidated accounts must reflect their cost to the group (i.e. to the parent), not their original cost to the subsidiary. The cost to the group is their fair value at the date of acquisition.
- Purchased goodwill is the difference between the value of an acquired entity and the aggregate of the fair values of that entity's identifiable assets and liabilities. If fair values are not used, the value of goodwill will be meaningless.

(3 marks)

(Total: 20 marks)