JULY 2023 PROFESSIONAL EXAMINATION
CORPORATE REPORTING (PAPER 3.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

STANDARD OF THE PAPER

The standard of the paper was more challenging than the previous diet. Although the questions were based on the syllabus and were largely straight forward and of the right level, some of the topics that were examined in this diet were not expected by most candidates. 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 18% as compared to the previous (March) diet of 15%. 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. Some candidates did not attempt the paper at all.

QUESTION ONE

The following Statements of Financial Position relate to Banky Ltd (Banky), Zinko Ltd (Zinko) and Tooli Ltd (Tooli):

Statements of Financial Position as at 28 February 2023

	Banky GH¢ million	Zinko GH¢ million	Tooli GH¢ million
Assets			
Non-current assets			
Property, plant and equipment	1,500	1,040	960
Deferred tax	-	80	-
Current assets	1,188	584	600
Total assets	**2,688**	**1,704**	**1,560**
Equity and liabilities			
Equity:			
Equity shares of GH¢5 each	600	500	500
Other reserves	150	90	60
Retained earnings	976	390	355
	1,726	980	915
Current liabilities	962	724	645
Total equity and liabilities	**2,688**	**1,704**	**1,560**

Additional information:

i) On 1 March 2022, Banky purchased 80 million equity shares in Zinko through share exchange of three shares in Banky for every two shares in Zinko. The fair values of each share of Banky and Zinko were GH¢7 and GH¢10.5 respectively at acquisition date. Shares issued by Banky have not yet been recorded in the books.

ii) On acquisition date, Zinko's retained earnings and other reserves were GH¢230 million and GH¢60 million respectively. Fair value of Zinko's identifiable net assets was equal to their carrying value except that Zinko had a disclosed contingent liability with a fair value of GH¢8 million at acquisition. Provision in respect of this contingent liability has been recognised by Zinko at GH¢7.2 million as at 28 February 2023.

iii) On the same date Zinko was acquired, Zinko also purchased 60% equity holding in Tooli. The purchase and sale agreement for this transaction provided that Zinko would pay cash amount of GH¢500 million (excluding GH¢2 million consultancy costs which Zinko settled immediately and charged against its other comprehensive income) to the former shareholders of Tooli in two years' time on condition that Zinko's sales growth exceeds 20% per annum. The fair value of this consideration was estimated at GH¢450 million at acquisition and GH¢438 million at 28 February 2023. Zinko has not yet recorded this transaction. Both values were deemed as final on the two given dates.

iv) However, the professional valuation of Tooli's identifiable net assets was not finalised at acquisition so a provisional fair valuation of GH¢845 million for the net assets was applied to arrive at the purchase consideration. The final valuation report which was released on 31 January 2023 showed a revised fair value of GH¢860 million for Tooli's identifiable net assets. Any fair value adjustment was due to an item of plant whose remaining useful life was 5 years at acquisition. On this date, Tooli's retained earnings and other reserves were GH¢275 million and GH¢55 million respectively.

v) Banky's closing inventories include goods sold by Zinko at a margin of 20%. These items were invoiced at GH¢5 million but are currently included in Banky's inventories at their net realisable value of GH¢4.2 million.

vi) The policy of the group is to measure non-controlling interests using their proportion of the fair value of identifiable net assets. An impairment review carried out revealed that goodwill in Zinko at this year-end had a "gross" recoverable amount of GH¢230 million.

vii) Ignore deferred tax adjustments unless otherwise indicated.

Required:
Prepare the Consolidated Statement of Financial Position for Banky Ltd as at 28 February 2023.
(All figures should be approximated to the nearest GH¢0.1 million)

(Total: 20 marks)

QUESTION TWO

a) Digital Ghana Ltd has agreed to work with Pixel Ghana Ltd in order to develop a new musical platform for the Ghana Musician Association. On 31 December 2021, the companies established a new entity called Flowbeat Ltd with equal shareholdings and share in profit. Digital Ghana Ltd has contributed its own intellectual property in the form of employee expertise, cryptocurrency with a carrying amount of GH¢6 million, which now has a fair value of GH¢8 million and an office building with a carrying amount of GH¢12 million with a fair value of GH¢20 million. The cryptocurrency has been recorded at cost in Digital Ghana Ltd.'s financial statements.

Pixel Ghana Ltd has contributed the technology and marketing expertise required for the smooth operations of Flowbeat Ltd. The board of Flowbeat Ltd will comprise of directors appointed equally by Digital Ghana Ltd and Pixel Ghana Ltd. Decisions are made by a unanimous vote.

Required:
In accordance with the provisions of relevant International Financial Reporting Standards:

i) Advise on the classification of the investment which Digital Ghana Ltd has in Flowbeat Ltd.

(3 marks)

ii) Advise on the derecognition of the assets exchanged for the investment in Flowbeat Ltd and any resulting gain/loss on disposal in the financial statements of Digital Ghana Ltd at 31 December 2021. **(2 marks)**

iii) Advise whether the cryptocurrency should be classified as a financial asset or an intangible asset. **(2 marks)**

b) On 1 April 2020, each of the seven (7) directors of Jantua Ltd received 16,000 share options as an award. Jantua Ltd prepares its accounts to 31 March each year. The condition attached to the award is that the directors must remain employed by Jantua Ltd for three years. The fair value of each option at the grant date was GH¢100 and the fair value of each option at 31 March 2022 was GH¢110. At 31 March 2021, it was estimated that two (2) directors would leave before the end of three years. Due to an economic upturn, the estimate of directors who were going to leave was revised to one (1) director at 31 March 2022. The expense for the year as regards the share options had not been included in profit or loss for the current year and no director had left by 31 March 2022.

Required:

With reference to International Financial Reporting Standards, advise the directors on how to account for the above transactions of Jantua Ltd in its financial statements as at 31 March 2022. **(6 marks**)

c) On 1 January 2021 Partey Leasing PLC (Partey), acquired a large-scale custom-made equipment and leased it to Mane Ltd (Mane) for six years. Mane makes annual payments of GH¢10 million, commencing on 31 December 2021. The equipment has a useful life of seven years. Mane is responsible for insuring and maintaining the equipment, and is required to pay additional GH¢1.5 million at the end of each year provided a defined performance target is met. Mane has guaranteed that the value of the equipment at 31 December 2026 will not be less than GH¢1 million, although Partey anticipates that the open market value at that date will be approximately GH¢2.5 million. The costs incurred by Partey and Mane in arranging the lease amounted to GH¢2.1 million and GH¢1.6 million respectively. The rate of interest implicit in the lease is 9.49% per annum. Mane achieved the defined performance target on 31 December 2021 and made the required payment.

Required:

In line with **IFRS 16: *Leases***, explain how Partey would account for the above lease in its financial statements for the year ended 31 December 2021. **(7 marks)**

(Total: 20 marks)

QUESTION THREE

a) Sandoo Ltd is a company which manufactures machinery for industrial use and has a year end of 31 December 2021. The directors of Sandoo Ltd require advice on the following transaction:

i) Sandoo Ltd acquired a cash-generating unit (CGU) several years ago but, at 31 December 2021, the directors of Sandoo Ltd were concerned that the value of the CGU had declined because of a reduction in sales due to new competitors entering the market. At 31 December 2021, the carrying amounts of the assets in the CGU before any impairment testing were:

	GH¢ million
Property, Plant and Equipment (PPE)	20
Goodwill	6
Other assets	38
	64

ii) The fair values of the Property, Plant and Equipment and the other assets at 31 December 2021 were GH¢20 million and GH¢34 million respectively and their costs to sell were GH¢200,000 and GH¢600,000 respectively. The CGU's cash flow forecasts for the next five years are as follows:

Date year ended	**Pre-tax cash flow**	**Post-tax cash flow**
	GH¢ million	**GH¢ million**
31 December 2022	16	10
31 December 2023	14	10
31 December 2024	10	6
31 December 2025	6	3
31 December 2026	26	20

iii) The pre-tax discount rate for the CGU is 8% and the post-tax discount rate is 6%. Sandoo Ltd has no plans to expand the capacity of the CGU and believes that a reorganisation would bring cost savings but, no plan has been approved. The directors of Sandoo Ltd need advice as to whether the CGU's value is impaired. The following extract from a table of present value factors has been detailed below:

Year	**Discount rate 6%**	**Discount rate 8%**
1	0·9434	0·9259
2	0·8900	0·8573
3	0·8396	0·7938
4	0·7921	0·7350
5	0·7473	0·6806

Required:

With reference to relevant International Financial Reporting Standards:

Advise the directors of Sandoo Ltd on how the above transactions should be accounted for in its financial statements as at 31 December 2021. **(10 marks)**

b) Axim Manufacturing plc has just employed Mr. Kennedy Owusu as the Finance Director of the company. The previous Finance Director, Mr. Ebenezer Anokye, completed the financial statements for the year ended 31 December 2021 before he left. The Auditors of the company are also done with the audit of the financial statement for the year, expressing an unmodified opinion on the accounts. Mr. Ebenezer Anokye is loved by the General staff, Management members and the Board of Directors for his ability in making the organisation profitable over the years, and "guaranteeing" increased end-of-year bonus payments to staff, as a consequence.

Mr. Kennedy Owusu wanted to familiarise himself with the operations of the company, and therefore decided to go through the financial statements for the previous year. He is dismayed to find several errors in the financial statements. The previous Finance Director, Mr. Ebenezer Anokye, passed several adjusting entries in January, 2022 to reflect in the 2021 financial statements. In one of such instances, Mr. Ebenezer Anokye recognised revenue on a large order received on December 28, 2021 but shipped on January 3, 2022. The narration or explanation given to this adjusting entry is, "omission of previous year sales, now recorded".

Also, purchase of inventory in October 2021, which was fully sold by the end of the year had been recognised in January 2022. Finally, depreciation expense had been reduced by GH¢230,000. All these adjustments were designed to increase profit after tax or earnings per share, culminating in increased bonus payment to Management and the General staff.

Required:

i) Identify the ethical issues involved in the adjustments made by Mr. Ebenezer Anokye.

(5 marks)

ii) Recommend the possible actions that Mr. Kennedy Owusu, the new Finance Director, should take to resolve the ethical breaches and to reverse the wrong accounting treatments.

(5 marks)

(Total: 20 marks)

QUESTION FOUR

a) Alomo Investments and Financial Services (Alomo) is a locally based investment portfolio firm which holds several financial assets across different industries in Ghana. Alomo holds some equity assets in Bediako Metals Ltd (Bediako). Currently, Alomo is preparing its financial statements and would like to know the fair value of its current year-end 20% equity holdings in Bediako based on the latter's recently available financial data (for the year ended 31 December 2021) provided below:

	GH¢ million
Tangible assets	895
Non-current financial assets	150
Current assets	485
Total liabilities (including all redeemable preference share capital)	750
Irredeemable preference share capital	100
Draft profit after tax	**170**

Additional information:

1) At year-end, the entity had to make downward revision of decommissioning provision relating to one of its plant as both the expected cash outflows and the current-market rate discount rate were reassessed. Reduction of GH¢40 million (appropriately discounted) has been used to revise liability, and same credited to profit or loss.

2) Bediako holds some 3-year bonds which are measured at fair value through other comprehensive income. Coupon and effective interest rates, which are same, have been correctly dealt with. The carrying value of these bonds is GH¢92 million, and the bonds are yet to be revised to reflect their year-end fair value. For the purpose of obtaining the appropriate fair value in line with IFRS 13: ***Fair value measurement***, the following information has been obtained:

	Reference to most advantageous market GH¢ million	**Reference to principal market GH¢ million**
Quoted market prices	120	90
Quoted market prices (with minor adjustment)	85	105
Based on own model	140	150

3) The directors of Bediako Ltd have refused to agree with their external auditors to a reduction in the year-end inventory value for the firm's main product. As a result, the auditors have issued a qualified opinion on the financial statements. The items in question are being included in current assets at the cost of GH¢200 million. The auditors noted during their subsequent event procedures that 90% of these items had been sold for 95% of their cost.

4) The directors also failed to cooperate with the Finance Director (FD) over how the issued 5-year bonds should be accounted for. The FD's position is that though the firm has clear intention to pay all interests and principal on the bonds to the bondholders, such treatment would result in a very huge measurement mismatch. Hence, the fair value option should be

taken. Taking that option would have created a fair value gain on the bond by GH¢12 million (including credit-worthiness element of GH¢5 million)

5) On 30 June 2021, Bediako Ltd made an issue of 30 million new ordinary shares to a venture capital firm to raise GH¢120 million. Later, on 1 November 2021, the entity also made a capitalisation issue on the basis of one new share for every four shares held at that time. Bediako has correctly accounted for these issues in its financial statements. Its total number of ordinary shares outstanding as at 31 December 2021 was 200 million.

6) Ordinary dividends for the current period, when compared to the draft profit attributable to ordinary shareholders translate into dividend cover of 5:1. The following details relate to preference dividends paid by Bediako during the current year:

Class of shares	**Type of dividend**	**GH¢ million**
Irredeemable preference shares (non-cumulative)	Final	10
Redeemable preference shares (non-cumulative)	Final	15
Note: Bediako has correctly accounted for these dividends.		

7) A comparable listed firm provides price/earnings ratio of 12 and dividend yield of 4%. Risk factor of 20% should be assumed.

Required:
Determine a range of values for Alomo's equity investment in Bediako using the following bases:

i) Net assets basis
ii) Earnings basis; and
iii) Dividend yield basis.

Note:

1. ***Additional information contained in 2), 3) and 4) may or may not necessitate revision of the draft profit but not the tax or the dividends.***
2. ***Bediako's weighted average number of shares based on 5) should be used for the earnings and dividend yield valuations.***

(15 marks)

b) An acquirer may obtain control of an acquiree without transferring consideration. In such cases, IFRS 3 requires an acquirer to be identified, and the acquisition method to be applied.

Required:
Briefly explain how this situation may come about, and highlight on the appropriate consolidation treatment required. **(5 marks)**

(Total: 20 marks)

QUESTION FIVE

Presented below are the common-sized financial statements of Towobo Ltd over the last five years:

Vertical common-sized statements of profit or loss for the years ended 31 December

	2022	**2021**	**2020**	**2019**	**2018**
	%	**%**	**%**	**%**	**%**
Revenue	100.00	100.00	100.00	100.00	100.00
Cost of sales	(88.58)	(85.45)	(84.92)	(87.36)	(92.70)
Gross profit	11.42	14.55	15.08	12.64	7.30
Distribution and marketing costs	(1.00)	(0.86)	(0.83)	(1.15)	(0.87)
Administrative expenses	(0.74)	(0.79)	(0.88)	(0.85)	(0.73)
Other operating income	2.06	1.78	0.77	0.58	0.69
Other operating expenses	(1.36)	(0.86)	(1.21)	(1.20)	(0.94)
Profit from operations	10.38	13.82	12.93	10.02	5.45
Finance cost	(0.02)	(0.04)	(0.02)	(0.05)	(0.10)
Profit before tax	10.36	13.78	12.921	9.97	5.35
Tax	(3.25)	(3.98)	(4.05)	(3.25)	(2.61)
Profit after tax	**7.11**	**9.80**	**8.86**	**6.72**	**2.74**

Vertical common-sized statements of financial position as at 31 December

	2022	**2021**	**2020**	**2019**	**2018**
	%	**%**	**%**	**%**	**%**
Non-current assets:					
Property, plant and equipment	8.49	8.55	15.50	20.27	23.33
Intangible assets	0.52	0.72	0.44	0.51	0.70
Capital work-in-progress	0.13	0.39	7.39	0.28	0.66
Long-term loans and advances	0.33	0.22	0.52	3.20	3.65
Total non-current assets	9.47	9.88	23.85	24.26	28.31
Current assets:					
Inventories	14.20	13.19	25.51	40.61	32.25
Receivables	0.16	0.09	0.53	0.32	-
Prepayments, advances and other receivables	22.33	17.65	6.21	10.69	20.33
Short-term investments	35.15	40.67	7.10	-	-
Cash and bank balances	18.69	18.52	36.80	24.12	19.11
Total current assets	90.53	90.12	76.15	75.74	71.69
Total assets	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Equity:					
Issued, subscribed and paid up capital	2.43	2.77	8.81	10.25	11.59
Retained earnings	16.50	10.69	18.24	3.78	0.62
Other reserves	10.10	11.91	21.95	22.74	7.20
Total equity	29.03	25.37	49.00	36.77	19.41
Non-current liabilities:					
Pensions liabilities	0.16	0.12	0.51	0.38	0.36

Deferred tax	0.74	0.71	0.83	-	-
Deferred revenue	0.02	0.02	0.06	0.08	0.10
Total non-current liabilities	0.92	0.85	1.40	0.46	0.46
Current liabilities:					
Trade, dividend and other payables	70.04	73.15	49.6	62.73	80.02
Current portion of deferred revenue	0.01	0.01	0.04	0.03	-
Income tax	-	0.62	-	0.01	0.11
Total current liabilities	70.05	73.78	49.60	62.77	80.13
Total equity and liabilities	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Required:

As the Financial Advisor to ABC Mutual Funds, report on the financial health or otherwise of Towobo Ltd based on the vertically analysed financial statements and advise ABC Mutual Funds on whether to invest in Towobo Ltd. Your report should focus on the profitability and cost control analysis, asset structure, capital structure and working capital structure.

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

Banky Group
Consolidated statement of financial position as at 28 February 2023

Assets:	**GH¢ million**
Non-current assets:	
Property, plant and equipment	3,524
(1,500 + 1,040 + 960 + 30(W2) – 6(W2))	
Goodwill (W3)	184
Deferred Tax	80
	3,788
Current assets (1,188 + 584 + 600 – 1(W2)+0.80)	2,371.80
Total assets	6,159.8
Equity and liabilities	
Ordinary shares (600 + 840(W3))	1,440
Other reserves (W6)	178
Retained earnings (W5)	1,176.30
Total equity attributable to shareholders of parent	2,794.30
Non-controlling interest (488.30+108.20)W4	596.50
	3,390.80
Total liabilities (962 + 724 + 645 + 438 contingent consideration)	2,769
Total equity and liabilities	6,159.8

Workings:

1. **Group structure**

Banky

80%

Zinko (1 yr)

60%

Tooli (1 yr)

Summary of percentages

	Zinko	Tooli
Parent's % - Direct	80%	-
Indirect	-	*(80% x 60%)* 48%
Non-controlling interests	20%	52%
	100%	100%

2. **Net assets schedule**

Zinko	**Acq. date GH¢'million**	**Rep. date GH¢'million**	**Post-acq GH¢'million**
Equity shares	500	500	-
Other reserves	60	90	30
Retained earnings	230	390	160
Consultancy Cost	-	2	2
Other Reserve Adjustment		(2)	(2)
Contingent liability	(8)	-	8
Prov. for Unrealized Profit (5*20%)	-	(1)	(1)
Reduction in contingent consideration (450 – 438)	-	12	12
	782	991	209
Tooli			
Equity shares	500	500	-
Other reserves	55	60	5
Retained earnings	275	355	80
Plant (bal. fig.) (860 – 500 – 55 – 275)	30	30	-
	860	945	85
Plant depreciation (30 x 1/5)	-	(6)	(6)
	860	939	79

Note on treatment of intra-group inventory:

The total profit on the intra-group inventory is GH¢1 million (20% of GH¢5 million). So the group should reduce inventory to its original cost by eliminating this unrealised profit of GH¢1 million. However, since the items have already been written down by loss of GH¢0.8 million (i.e. GH¢5 million less GH¢4.2 million NRV) and are being currently carried at GH¢4.2 million, the write-down of GH¢0.8 million should be should be reversed from the group retained earnings and PUP reported in the inventory.

3. **Goodwill**

Zinko	**GH¢ million**
Cost of investment	
Fair value of shares issued (80% x 500/5 x 3/2 x 7)	840
Add: NCI% of net assets at acquisition (20% x 782)	156.40
	996.40
Fair value of identifiable net assets acquired (W2)	(782)
Goodwill at acquisition	214.40
Less: Impairment (see below) (80% x 38)	(30.40)
Goodwill at reporting	184

Test for goodwill impairment	**GH¢ million**
Carrying amount (at gross) (214.40 x 100/80)	268
Impairment loss	(38)
Gross recoverable amount	230

Note

20% loss attributable to the notional NCI's goodwill would not be recognised; only 80% of the impairment loss would therefore be charged against profit and goodwill.

Tooli

	GH¢ million
Cost of investment:	
Contingent consideration	450
Less: indirect holding adjustment (20% x 450)	(90)
	360
Add: NCI% of net assets at acquisition (52% x 860)	447.20
Fair value of identifiable net assets acquired (W2)	(860)
Bargaining gain on acquisition (Negative goodwill)	(52.80)

4. **Non-controlling interest**

	GH¢'million
Zinko:	
NCI at acquisition (20% x 782)	156.40
Add: NCI% of Zinko's post –acquisition (20% x 209)	41.8
Less: Indirect holding adjustment (20% x 450)	(90)
NCI at reporting	108.20
Tooli:	
Fair value of NCI at acquisition (52% x 860)	447.20
Add: NCI% of Tooli's post-acquisition (52% x 79)	41.1
NCI at reporting	488.3

5. **Retained earnings**

	GH¢'million
Banky	
Balance b/d	976
Reversal of Inventory Valuation (5 – 4.20)	0.80
Zinko	
Parent's share of post-acq. earnings (80% x (209 – 30-2))	141.60
Impairment loss – goodwill	(30.40)
Tooli	
Parent's share of post-acq. earnings (48% x (79 – 5))	35.5
Bargaining gain (W3)	52.80
	1,176.30

6. **Other reserves**

	GH¢'million
Banky	
Balance b/d	150
Zinko	
Parent's share of post-acquisition (80% x 32 (30+2)W2	25.6
Tooli	
Parent's share of post-acquisition (48% x 5)W2	2.4
At reporting	178

(20 marks evenly spread using ticks)

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:

a) Candidates had difficulty in determining the goodwill arising on acquisition. The question had a gross recoverable amount of goodwill. Candidates were to use this gross recoverable amount to compare with the gross (full) after grossing up the computed goodwill or deflating the recoverable amount given at the notional NCI of 20% in Zinko. Candidates struggled generally to apply this aspect of IAS 36 *Impairment of Assets*.

b) Though candidates could compute the gain on bargain purchase in the sub-subsidiary, they struggled to identify the appropriate treatment for the computed amount, whereas some added or netted to or against the positive goodwill, others could not identify what to do with the figure. Candidates were expected to add to the retained earnings in the group.
c) On the average, candidates also failed to identify the correct cost of investment to be used in the computation of the goodwill in the sub-subsidiary. Majority of candidates used the full investment made by the subsidiary instead of the proportion of the parent's shareholding in the subsidiary. The indirect holding adjustment which takes effect of removing the contribution of non-controlling interest (NCI) in the investment was not made by most candidates.
d) In computing the NCI, candidates failed to adjust the NCI in the subsidiary with the proportion of the NCI's contribution in the sub-subsidiary (that is the indirect holding).
e) The footnote (v) presented candidates with unrealised profit on goods sold by the subsidiary to the parent company. However, the buyer (parent) had at the statement of financial position date, the inventory recorded at net realisable value (NRV). Adjustment of NRV however showed that the inventory was not impaired and should not be at net realizable value since the cost was lower than the NRV. A reversal of the written down value was to be made by candidates in the books of the buyer (Banky) whiles the provision for unrealized profit (PUP) reversal is made in Zinko's books. This was generally not done by candidates.

QUESTION TWO

a)

i) This appears that Digital Ghana Ltd and Pixel Ghana Ltd jointly control Flowbeat Ltd and it appears as though the arrangement is a joint venture under **IFRS 11 Joint Arrangements** as the parties have joint control of the arrangement and have rights to the net assets of the arrangement.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. This is the case with Flowbeat Ltd. A joint venturer recognises its interest in a joint venture as an investment and accounts for that investment using the equity method in accordance with **IAS 28 Investments in Associates and Joint Ventures** unless the entity is exempted.

Marks allocation:
Identification of IFRS 11: Joint arrangement = 1 mark
An understanding of Joint control = 1 mark
Treatment of joint venture in accordance with IAS 28 = 1 mark
3 marks

ii) Digital Ghana Ltd has exchanged non-monetary assets for its investment in Flowbeat Ltd, and thus needs to de-recognise the assets it is contributing to Flowbeat Ltd in its financial statements. The carrying amount of GH¢12 million of the property is derecognised but the intellectual property of Digital Ghana Ltd has been generated internally and does not have a carrying amount. The cryptocurrency is recorded as an asset in the financial statements of Digital Ghana Ltd at GH¢6 million but will be valued at GH¢8 million, its fair value in the financial statements of Flowbeat Ltd. Accordingly, when a joint venturer contributes a non-monetary asset to a joint venture in exchange for an equity interest in the joint venture, the joint venturer recognises a portion of the gain or loss on disposal which is attributable to the other parties to the joint venture (except when the contribution lacks commercial substance).

Basically, Digital Ghana Ltd is required by **IAS 28** to limit the profit on disposal of its non-monetary assets to 50%. Effectively, Digital Ghana Ltd has only disposed of 50% of the asset contributed to the joint venture. Therefore, the carrying amount of the joint venture in Digital Ghana Ltd.'s financial statements at 31 December 2021 will be GH¢23 million ((GH¢12 + GH¢6 carrying amounts derecognised for property and cryptocurrency) + ((GH¢8 – GH¢6)/2) + ((GH¢20 – GH¢12)/2)). A gain of GH¢5 million will be recorded in profit or loss.

Marks allocation:
Derecognition of assets and Cryptocurrency to be value at fair value in Joint venture = 1 mark
50% profits to be recognized = 1 mark
2 marks

iii) A crypto currency is a form of digital asset based on a network that is distributed across a large number of computers. This decentralized structure allows cypto currencies to exist outside the control of governments and central authorities.

Cryptocurrency cannot be considered a financial asset since there is not contractual right to receive cash or another financial instrument from an entity. It does not represent cash or an equity instrument.

Since the ***cryptocurrency is not cash or cash equivalents*** as its value is exposed to significant changes in market value and there is no contractual right to receive either cash or cash equivalents, it fails the definition of a financial asset.

The cryptocurrency is to be recognised as an intangible asset, and the default position would be to measure it at cost. However, there may be an argument to say that there is an active market for the cryptocurrency in which case, it would be possible for it to be measured at fair value. In this case, movements in that fair value would be recognised through other comprehensive income and the gain would not be recycled through profit or loss when the cryptocurrency is realised. The best way to account for a cryptocurrency would be fair value as that is the value at which the entity will realise their investment or transact in exchange for goods and services. Accounting for cryptocurrency at fair value with movements reflected in profit or loss would provide the most useful information to investors but existing accounting requirements do not appear to permit this.

Marks allocation:
An understanding of the treatment of crypto currency as an intangible asset = 2 marks

b) This transaction is accounted for under IFRS 2: Share Based Payments. Specifically, this is an equity-settled share based payment scheme and is accounted for below:
Calculation of expenses and cumulative expenses.

year	**Expense for the year GH¢ million)**	**Cumulative expenses GH¢ million)**	**Calculations**
31 March 2021	2.67	2.67	5 directors x GH¢100 x 16,000 x 1/3
31 March 2022	3.73	6.4	6 directors x GH¢100 x 16,000 x 2/3

Profit or loss extract – for the year ended 31 March 2022

	GH¢ million
Staff cost -share based scheme	3.73

Statement of financial position -Extract as at 31 March 2022

Equity	GH¢ million
Special share - share based scheme	6.4

Marks allocation:
Identification of IFRS 2 = 1 mark
Calculations = 2 marks
Profit or loss extract = 1.5 marks
Statement of financial position extract = 1.5 marks
6 marks

c) Partey would account for the lease agreement as a finance lease based on the following reasons:

- The lease term of six years occupies more than 75% of the equipment's useful economic life of seven years;
- Mane, the lessee, is responsible for insuring and maintaining the equipment; and
- The underlying asset is custom-made.

At the initial recognition date, Partey would recognise a lease receivable for the finance lease. The receivable would be initially measured at either the sum of the equipment's fair price and lessor's initial direct costs or the present value of minimum lease payments and unguaranteed residual value, and subsequently adjusted for interest income, lease payments, any required re-measurements and impairment (if any).

The lease payments would exclude the variable payment as the variability depends on management's own performance. Partey would only account for such payment as income if the predefined condition is met:

Year	**Future lease payments** GH¢'000	**D.F.** (9.49%)	**Present value** GH¢'000
1	10,000	0.913	9,130
2	10,000	0.834	8,340
3	10,000	0.762	7,620
4	10,000	0.696	6,960
5	10,000	0.636	6,360
6	10,000	0.580	5,800
6 (GRV)	1,000	0.580	580
Present value of minimum lease payments			44,790

6 (URV)	1,500	0.580	870
Lease receivable			**45,660**

Or Using the annuity formula

Year	Future lease payments GH¢000	Annuity factor (9.49%)	Present value GH¢000
1-6	10,000	4.4210	44,210
6 (GRV)	1,000	0.580	580
Present value of minimum lease payments			44,790
6 (URV)	1,500	0.580	870
Lease receivable			**45,660**

Lease table for subsequent measurement of the lease receivable:

Year	Balance at start GH¢000	Interest (9.49%) GH¢000	Lease receipts GH¢000	Balance at end GH¢000
2021	45,660	4,333	(10,000)	39,993
2022	39,993	3,795	(10,000)	33,788

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

	GH¢000
Finance income	3,795
Additional lease payment	1,500

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

	GH¢000
Non-current assets:	
Lease receivable (39,993 – 6,205)	33,788
Current assets	
Lease receivable (10,000 – 3,795)	6,205

Marks Allocation:
Lease classification = 1 mark
Explanation of initial and subsequent recognition of lease receivable = 1 mark
Treatment of variable payment = 1 mark
Computations and extracts = 4 marks
7 marks
(Total: 20 marks)

EXAMINER'S COMMENTS

This question on selected accounting standards (IFRS) was a difficult question for most candidates. Despite the question being relatively straight forward, candidates failed to identify the relationship but directed attention more to the standards applicable. It was generally not well answered. The question focused on IFRS 11, IAS 28, IFRS 2, and IFRS 16. It seems candidates were unfamiliar with these standards. Candidates performed poorly in this question with few scoring average marks available. Overall, question 2 was partly attempted and answered. Some candidates did not attempt this question at all. ICAG should intensify revision on standards to enhance better appreciation by candidates.

QUESTION THREE

a) **IAS 36 Impairment of Assets** requires that assets be carried at no more than their carrying amount. Therefore, entities should test all assets within the scope of the standard if there is potential impairment when indicators of impairment exist. If fair value less costs of disposal or value in use is more than carrying amount, the asset is not impaired. It further says that in measuring value in use, the discount rate used should be **the pre-tax rate** which reflects current market assessments of the time value of money and the risks specific to the asset. The discount rate should not reflect risks for which future cash flows have been adjusted and should equal the rate of return which investors would require if they were to choose an investment which would generate cash flows equivalent to those expected from the asset. Therefore, **pre-tax cash flows and pre-tax discount rates** should be used to calculate value in use. Discounting post-tax cash flows with a post-tax discount rate could give the same result in an entity were it not for any temporary differences and/or tax losses which might exist.

Year-end dates	**Pre-tax cash flow GH¢'million**	**Discount factor 8%**	**PV of cash flows GH¢'million**
31 December 2022	16	0.9259	14.81
31 December 2023	14	0.8573	12.00
31 December 2024	10	0.7938	7.94
31 December 2025	6	0.7350	4.41
31 December 2026	26	0.6806	17.70
			56.86

The CGU is impaired by the amount by which the carrying amount of the cash-generating unit exceeds its recoverable amount which is the higher of an asset's fair value less costs of disposal and its value in use.

The fair value less costs to sell (GH¢53.2 million) (i.e. 20+34 -0.2 -0.6) is lower than the value in use (GH¢56.86 million). The recoverable amount is therefore GH¢56.86 million.

The carrying amount is GH¢64 million and therefore the impairment is GH¢7.14 million (i.e. GH¢64 – 56.86 million). The impairment loss of GH¢7.14 million is charged to profit or loss for the year ended 31 December 2021.

Sandoo Ltd will allocate the impairment loss first to the goodwill and then to other assets of the unit on pro rata basis of the carrying amount of each asset within the cash-generating unit. As a result, the entity will allocate GH¢6 million to goodwill and then allocate GH¢1.14 million on a pro rata basis to PPE (1.14 x 20/58 = GH¢0.39 million) and other assets (1.14 x 38/58 = GH¢0.75 million). This would mean that the carrying amounts would be GH¢19.61 million (i.e. GH¢20 – 0.39 million) for PPE and GH¢37.25 million (i.e. GH¢38 – 0.75 million) for other assets.

However, when allocating the impairment loss, the carrying amount of an asset cannot be reduced below its fair value less costs to sell. The fair value less costs to sell of the CGU's assets is GH¢19.8 million (PPE) (GH¢20 million – GH¢0.2 million) and GH¢33.4 million (other assets) (GH¢34 million – GH¢0.6 million).

Therefore, the carrying amounts of the assets of the CGU after impairment will be PPE GH¢19.8 million and other assets GH¢37.06 million as the excess impairment of GH¢0.19 million on PPE will be allocated to other assets.

Marks Allocation:
Identification of IAS 36 = 1 mark
Calculation of the PV of cash flows = 3 marks
Impairment loss calculation = 2 marks
Allocation of impairment loss = 3 marks
Carrying amount of assets to SOFP = 1 mark
10 marks

b)

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

Integrity

The conduct of the previous Finance Director in painting false performance of the company by engaging in earnings management violates the principle of integrity. An Accountant is expected to be honest and straightforward in carrying out his duties. This behaviour is therefore contrary to the principle on integrity. The unmodified opinion of the Auditors despite these adjustments made by the Director of Finance also brings the integrity of the Auditors into question.

Professional behaviour

The practice or behaviour of the Accountant should not put the Accounting profession into disrepute. Manipulating expenses and the timing of recognition of income statement items to increase bonus payments is not expected of the Accountant. An Accountant is encouraged to produce financial statements that represent true and fair view of events. Similarly, the Auditors of the company are expected to express an opinion on the truth and fairness of the financial statements. The issue of unmodified opinion on the financial statements regardless of the former Finance Director's significant manipulations to the accounts also puts the Accountancy profession in bad image.

Professional competence

The professional competence of the Accountant is also brought into question here. Though, the behaviour of the former Director of Finance is seen as deliberate, the timing of recognition of revenue and massaging of expenses also shows that the competence of the Accountant is questionable.

(Any 2 principles well discussed @2.5 = 5 marks)

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

- Engage the Former Director of Finance as a colleague member of the profession on the issues detected. Find out the reasons for his decisions and offer any necessary advice.

- Engage the Managing Director of the company on discovery of the malpractices and its implications on future profit of the company to manage their expectations.

- Engage the Board of Directors of the company on discovery of the company's practice of earnings management and why the practice should not be entertained.

- Since the Auditors of the company have issued an unmodified opinion on the accounts, it presupposes that the Auditors are also supportive of the practice of earnings management by the company. The new Finance manager should also engage the Auditors on this issue, and emphasise the need for professional behaviour and due care to be exercised in their future work.

- Mr. Kennedy Owusu can always seek advice from the Professional body on the matter especially if the key actors like management and the company's Board of Directors are in support of the current practice.

- If Mr. Kennedy does not make any headway in dissuading the company from the current practice of earnings management, he can resign to prevent breaching of the ethical principles.

(Any 5 actions to be taken at 1 mark each= 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question examined candidates on IAS 36 *Impairment of Assets* as well as on the principles of ethics. The question was of the appropriate standard. Some candidates lacked the knowledge and skill to apply IAS 36 to answer the question and therefore performed poorly in the 'a' part of the question. They could not use the right cash flows and the discount rate (pre-tax cashflow and the pre-tax discount factors) to compute the value in use for the determination of the recoverable amount. Candidates performed above average on the principles of ethics. However, a few of them wasted time explaining the threats instead of the principles. A greater percentage of the marks earned by candidates came from the ethics part of the question. 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)

i) Net asset basis

Value per share is given by net assets valuation divided by number of ordinary shares issued.

Revision of net assets:

	GH¢ million
Tangible assets (895 – 40 Decommissioning Provision)	855
Non-current financial assets (150 – (92 – 90 = 2))	148
Current assets (485 – (5% x 200 = 10 inventory write-down))	475
	1,478
Total liabilities (750 – 12)	(738)
	740
Less: Irredeemable preference share	(100)
Revised net assets	**640**

Net assets value per share = GH¢640million/200million shares = **GH¢3.20**

ii) Earnings basis

Value per share	=	EPS of Alomo x PE Ratio of the listed firm
EPS	=	GH¢117million (see below)/181.25 million shares
	=	GH¢0.6455

Considering the risk factor of 20%,

Value per share	=	0.6455 x 12 x 80% risk
	=	GH¢6.1968

Revision of profit	**GH¢ million**
Profit per draft accounts	170
Adjustments:	
Reversal of increase in decommissioning provision	(40)
Inventory write-down (see above)	(10)
Fair value gain on issued bonds (12 – 5 OCI)	7
Revised profit	127
Less: Irredeemable preference dividend	(10)
Profit for ordinary shareholders	117

iii) Dividend yield basis

Value per share = $\frac{\text{DPS of Bediako}}{\text{Dividend yield of listed firm}}$

Considering the risk factor of 20%,

Value per share = $\frac{\text{GH¢}0.18 \times 80\%}{4\% \text{ or } 0.04}$

or

$\frac{\text{GH¢}0.18}{0.04 \times 100/80}$

= GH¢3.60

Alternatively, dividend yield can be adjusted upwards to 120% or 1.2 of the original

Value per share = $\frac{\text{GH¢}0.20}{0.04 \times 1.2}$

= GH¢4.17

DPS = Ordinary dividends/weighted no. of ordinary shares

= (GH¢32million (see below)/181.25 million shares (see below)

= **GH¢0.18 per share**

Determination of weighted average number of shares:

Date	Description	No. of shares	Time	Bonus fraction	Weighted Ave no. shares
1/1 – 30/6/21	Opening balance (160,000,000 – 30,000,000)	130,000,000	6/12	5/4	81,250,000
30/6/21	Issued to ven. Capital	30,000,000			
30/6 – 31/10/21		160,000,000	4/12	5/4	66,666,667
1/11/21	Bonus issue 1/5 (1/5 x 200,000,000)	40,000,000			
1/11 – 31/12/21		200,000,000	2/12	-	33,333,333
					181,250,000

<u>Determination of current ordinary dividend</u>

= 1/dividend cover x profit attributable to ordinary shares

= 1/5 x (GH¢170 million – GH¢10 million)

= GH¢32 million

Alternatively dividend can be calculated based on the revised profit

<u>Determination of current ordinary dividend</u>

= 1/dividend cover x profit attributable to ordinary shares

= 1/5 x (GH¢127 million – GH¢10 million)

= GH¢23.4 million

DPS	= Ordinary dividends/weighted no. of ordinary shares
	= GH¢23.4million /181.25 million shares (see below)
	= **GH¢0.13 per share**

Value per share = $\frac{\text{GH¢}0.13 \times 80\%}{4\% \text{ or } 0.04}$

or

$\frac{\text{GH¢}0.13}{0.04 \times 100/80}$

= GH¢2.71

Range of values for Alomo's 25% investment in Bediako:

1. GH¢136 million (25% x 200m x 2.71) - Based on dividends as per revised profit
2. GH¢160 million (25% x 200m x 3.20) - Based on net assets as adjusted
3. GH¢180 million (25% x 200m x 3.60) - Based on dividends as per draft profit
4. GH¢309.5 million (25% x 200m x 6.19) - Based on earnings as per revised profit

(15 marks)

b) An entity may gain control without transferring consideration through any of the following ways:

- the acquiree repurchases a sufficient number of its own shares for an existing investor (the acquirer) to obtain control;
- minority veto rights lapse that previously kept the acquirer from controlling an acquiree in which the acquirer held the majority voting rights; and
- a combination by contract alone.

Consolidation implication

In a business combination achieved without the transfer of consideration, goodwill is determined by using the acquisition-date fair value of the acquirer's interest in the acquiree (measured using a valuation technique) rather than the acquisition-date fair value of the consideration transferred. The acquirer measures the fair value of its interest in the acquiree using one or more valuation techniques that are appropriate in the circumstances and for which sufficient data is available. If more than one valuation technique is used, the acquirer should evaluate the results of the techniques, considering the relevance and reliability of the inputs used and the extent of the available data. **(5 marks)**

(Total: 20 marks)

EXAMINER'S COMMENTS

This question on business valuation was poorly answered by almost all the candidates. Many candidates scored below the average mark. The poor performance could be due to inappropriate treatments of valuation adjustments. Many candidates attempted the net assets method only but could not get the maximum marks. Many candidates could not attempt the P/E ratio and dividend yield methods because they could not adjust the profit and could not calculate the weighted average number of shares as required by the question.

The second part of the question (Question 4b) which was on consolidation theory was not answered by many candidates at all. Few candidates who attempted this, misunderstood the question. As a result, they deviated and were explaining forms of considerations. The question required candidates to explain how an acquirer may obtain control of an acquiree without transferring consideration. One way by which an acquirer may gain control without transferring consideration is where the acquiree repurchases a sufficient number of its own shares from other investors. Once this happens, the acquirer will obtain control by having majority shares of the acquiree.

QUESTION FIVE

Report

To	:	CEO, ABC Mutual Funds
From	:	Financial Advisor
Date	:	1/7/2023
Subject	:	**Report on the financial health of Towobo Ltd**

Introduction

This report highlights on the financial health of Towobo Ltd using five-year vertically analysed common-sized financial statements. The report focuses on profitability and cost control analysis, asset structure, capital structure and working capital structure.

Profitability and cost control analysis

This section provides insight into how well the firm has managed the costs consumed to generate the reported income. Highlights on what proportion of the firm's incomes was used up to cover the entity's expenses are also shown.

Generally, it appears this firm is a production cost intensive entity as cost of sales used up not less than 84% at any point in time over the five-year period. The gross profit to sale ratios more than doubled between 2018 and 2020 before taking a consistently declining trend from 2020 to 2022, indicating that the firm is either losing its grip on controlling its direct production and trading costs or revenue performance has become poor. Either way, measures need to be put in place to reverse this trend. With cost of sales percentage being 92.7%, 2018 tends to be the period with the least margin while 2020 is the most profitable as about 15 pesewas on each cedi of sales resulted in gross profit.

Operating and net profit margins have maintained the same increasing trend as the gross margin between 2018 and 2020. Given the minimal effects of the non-production overheads, one would not be wrong to say the gross margins fed through these other two margins. But unlike gross margin, operating margin and net profit margin kept rising until 2021 and only fell between 2021 and 2022. A closer look at the operating items shows that the improved profit margins in 2021 occurred due to reduced other operating expenses and sharp rise in other operating income in 2021. These positive changes outstripped the slow rise in cost of sales between 2020 and 2021, hence the improvement. Meanwhile the reduced margins in 2022 were driven by both poor control over direct cost of sales and escalating overheads, especially other operating expenses. Better control over costs is required if the falling profitability were to be reversed anytime soon.

Interest costs have been comfortably covered by profit from own activities over the five years. The least number of times profit available to capital providers could be used to pay returns to lenders sits around 54 times. But it could also be that Towobo Ltd maintains low level of debts.

Asset structure
The firm invests more in current assets than in long-term and tangible assets. The importance of non-current assets has considerably reduced since 2018 at the time when these assets occupied 28% of all firm's resources. Consistently, Towobo Ltd has held huge cash balance. If no restrictions were put on the cash balance, a question would be asked whether it is prudent holding such level of cash asset. While inventory and cash were the most significant assets in 2019 and 2020 both have been on a decline after 2020. However, advances and short-term investments have since 2020 grown in importance. It is worthy of note that this growth has come at the expense of investments in long-term assets, inventory, and cash. Reducing the size of long-term non-financial assets and inventory and at the same time investing more in short-term financial assets could imply a change in business model. And increased financial asset investment could explain the gradual improvement in the firm's other operating income.

The low level of receivables is an indication that the firm operates a very strict credit policy.

Capital structure
Towobo Ltd relies mostly on external finance to fund its investment, with trade and other payables being the main source of finance for the firm. While the level of dependence on debts reduced significantly and use of equity funds rose remarkably between 2018 and 2020, reliance on liabilities as source of finance has leapt after 2020. But what is a bit relieving is that almost all the liability sources are interest free. Using more external resources puts the firm at risk of running into financial distress. If some of the other payables carry interest or are secured on the firm's assets, the probability of losing valuable assets or the firm becoming insolvent would be that high. Added risk arises from the fact that as high as 70% of finance comes from short-term creditors.

Working capital structure
As already indicated, Towobo Ltd has kept huge resources in both cash and short-term investments over the five-year period. Inventory levels have declined considerably, and currently, it is not so clear as whether such development is due to a revised business model or increased turnovers. Though near-future liabilities have been a major source of finance, liquidity of firm appears to be healthy as current assets, which now are mostly cash and near-cash assets, have consistently exceeded these current liabilities. The situation shows that the firm would be more than able to meet its short-term obligations with its liquid assets if the creditors were to make demand for payment (repayment of money).

Conclusion

Overall, profitability of the firm has been good over the years but a slump in the current year need to be addressed. The firm relies heavily on debts in financing its activities, but given that most of these liabilities are interest free and current assets comfortably covering short-term liabilities, there are not a lot of concerns to invest in such an entity. With benefits of comparative information for the sector, non-financial information, and deeper ratio analysis, I would be able to offer a more reliable advice.

You may request for any clarification if the need arises. Thank you.

(Signed)
Financial Advisor

Marks Allocation:
Structure/Format of the report (i.e. memo or appropriate heading) = 2 marks
Introduction = 1 mark
Comment on profitability and cost control analysis = 6 marks
Comment on asset structure = 3 marks
Comment on capital structure = 3 marks
Comment on working capital structure = 3 marks
Conclusion/Advice/Signature = 2 marks
20 marks

EXAMINER'S COMMENTS

This question was on analysis of common-sized financial statements of Towobo Ltd over a five-year period. The question was of the appropriate standard. However, most candidates were not familiar withanalysis of common-sized financial statements. Candidates were too fixated with this question relating to the five major accounting ratios: profitability, liquidity, asset management, gearing and investor ratios. Most candidates could not provide meaningful analysis relating to profitability and cost control analysis, asset structure, capital structure and working capital structure, as required by the examiner. Some candidates managed to compute ratios even though they were not needed based on the nature of the question.

CONCLUSION

Overall, the performance of candidates provided some indication 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 write the exams 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. This ultimately has implication for the overall pass rate for the corporate reporting paper.