JULY 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 satisfactory.

PERFORMANCE OF CANDIDATES

On the whole, performance of candidates was below expectation. The less than satisfactory performance may be as a result of short period for preparation and lack of appreciation of content and application of the relevant IFRSs.

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NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES

Almost all the candidates scored good marks in Question 4 'Accounting Ratios and Financial Statement Interpretation''. That question was a 'low hanging fruit' for all the candidates.

A greater number of the candidates demonstrated lack of understanding of how to present consolidated financial statements. Many could also hardly understand and apply the contents of the relevant International Financial Reporting Standards.

QUESTION ONE

Tarkwa Ltd (Tarkwa) has been operating in the clothing and textiles industry in the past decade. On 1 July 2021, it acquired Awaso Ltd (Awaso) which operates in the same industry. The statements of Financial Position of the two companies as at 31 December 2021 are as follows:

	Tarkwa GH¢000	**Awaso GH¢000**
Assets		
Non-current assets	185,400	93,000
Current Assets		
Inventory	76,200	31,800
Other current assets	58,200	24,000
	134,400	55,800
Total assets	**319,800**	**148,800**
Equity and Liabilities		
Equity:		
Share capital (issued at GH¢1 each)	120,000	50,000
Retained earnings:		
Balance at January 1, 2021	73,200	51,600
Profit/(loss) for the year ended December 31, 2021	30,000	(18,000)
	223,200	83,600
Non-current liabilities:		
Deferred tax	30,000	4,000
Current liabilities:		
Trade payables and accruals	66,600	61,200
Total Equity and Liabilities	**319,800**	**148,800**

Additional information:

i) Tarkwa acquired 80% of Awaso's equity shares by means of immediate cash payment of GH¢1.80 per each acquired share. However, the former shareholders agreed to return some of the consideration by 30 June, 2022 if Awaso's sales growth falls below a defined threshold over the next one year. The value of this contingent consideration at the date of acquisition was estimated to be GH¢4 million. At 31 December 2021, in the light of Awaso's falling sales, the value was revised to GH¢4.5 million. Tarkwa has only recorded the immediate cash payment.

ii) Tarkwa on the date of acquisition conducted a fair value exercise on Awaso's net assets, which were equal to their carrying values including Awaso's investment property with the exception of an item of owner-occupied property which had a fair value of GH¢5 million below its carrying amount. The property had a remaining useful life of 20 years as at 1 July, 2021. Awaso has already incorporated the fair value change (together with the depreciation adjustment) in its own financial statements.

iii) At 31 December 2021, Awaso held goods in inventory, which had been supplied by Tarkwa at a mark-up on cost of 35%. The goods had cost Awaso GH¢6.75 million. 50% of the inventory remained unsold.

iv) The investment properties of Tarkwa and Awaso are carried at their fair values at January 1, 2021. However, at 31 December 2021, an item of properties had fair values of GH¢36.6

million and GH¢10.8 million respectively, with the change in Awaso's investment properties all occurring since acquisition. These properties had carrying amounts at GH¢33,000 and GH¢12,000 respectively at same date.

v) It is Tarkwa's group policy to value the non-controlling interest using the fair value method at the acquisition date for this purpose, a share price for Awaso of GH¢1.50 each is representative of the fair value of the shares held by the non-controlling interest.

Required:
Prepare the Consolidated Statement of Financial Position for Tarkwa as at December 31, 2021.

(Total: 20 marks)

QUESTION TWO

a) Bondito Ltd acquired 100% of a subsidiary, Manyabe Ltd, on 1 January 2021. The carrying amount of the assets of Manyabe Ltd in the consolidated financial statements of the Bondito group at 31 December 2021, immediately before an impairment review, were as follows:

	GH¢ million
Goodwill	1.4
Brand name	2
Property, plant and equipment	6
Current assets (at recoverable amount)	2.4
	11.8

The recoverable amount of Manyabe Ltd was estimated at GH¢9·6 million at 31 December 2021 and the impairment of the investment in Manyabe Ltd was deemed to be GH¢2·2 million. Bondito Ltd applies ***IAS 16: Property, Plant and Equipment*** and ***IAS 36: Impairment of Assets*** in preparing its financial statements.

Required:
Assuming Manyabe Ltd represents a cash generating unit, show the financial reporting treatment of the brand name at 31 December 2021 in the books of Bondito Ltd following the impairment review. **(5 marks)**

b) Namba Ltd is a multinational with financial reporting year end 30 June. On 1 July 2021, Namba Ltd acquired a manufacturing unit under an eight-year lease. The lease rentals have been recorded correctly in the financial statements of Namba Ltd. However, Namba Ltd could not operate effectively from the unit until alterations to its structure costing GH¢13.2 million were completed. The manufacturing unit was ready for use on 30 June 2022. The alteration costs of GH¢13.2 million were charged to administration expenses. The lease requires Namba Ltd to restore the unit to its original condition at the end of the lease term. Namba Ltd estimates that this will cost a further GH¢10 million. Market interest rates are currently 6%.

The following discount factors may be relevant:

Periods	**6%**
7	0·665
8	0.627

Required:
Recommend to the directors of Namba Ltd on how to account for the above transactions as at 30 June 2022 in accordance with International Financial Reporting Standards. **(5 marks)**

c) Pampaso Ltd is a fruit processing company which is listed on the Ghana Stock Exchange with a financial year end 31 December. The trial balance for the year ended 31 December 2021 showed a credit balance for government grant of GH¢1,800.

As part of the Local government's initiative to stimulate employment of fresh graduates from Tertiary institutions in the locality, Pampaso Ltd received a grant of GH¢3 million towards the purchase of additional production machinery on 1 January, 2019. The company, accordingly, acquired additional production machinery costing GH¢3 million on that date. The condition attached to the grant was for Pampaso Ltd to employ at least three fresh graduates every year over the estimated five-years useful life of the production machinery. The company, however, since January 2019, has only recruited one fresh graduate. The non-compliance of the company in relation to the conditions attached to the grant has come to the attention of the Local government, and as a result, the company on 1 January 2021 was instructed to repay 50% of the grant received in the next eighteen months. Management, however, has reasonable assurance that the new condition of employing at least one fresh graduate in a year will be complied with. The company, accordingly, paid the grant repayable to the Local government. Pampaso Ltd uses the ***deferred income method*** in accounting for government grants.

Required:
Advise Management of Pampaso Ltd on the accounting treatment of the grant in accordance with ***IAS 20: Accounting for Government Grants and Disclosure of Government Assistance*** for the year ended 31 December 2021**.** **(7 marks)**

d) The objective of ***IAS 37: Provisions, Contingent Liabilities and Contingent Assets*** is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount.

Required:
Explain ***Contingent Liability*** and ***Contingent Asset*** as used in the statement above.
(3 marks)

(Total: 20 marks)

QUESTION THREE

Beposo Ltd is a agro processing company, whose Head office is in the Greater Accra region of Ghana. The trial balance of the company for the year ended 31 December 2021 is as follows:

		Debit GH¢000	Credit GH¢000
Revenue	Note (i)		2,634,750
Cost of sales		1,856,830	
Administrative expenses	Note (iii)	405,000	
Other operating expenses		273,750	
Non-current assets	Note (ii)	241,620	
Inventory (31/12/2021)		173,700	
Trade & Other receivables		177,750	
Trade payables			131,838
Cash & Bank balances		823,050	
Share Capital@GH¢1	Note (iii)		900,000
Retained earnings			170,550
Revaluation surplus	Note (ii)		98,000
Provision for tax	Note (iv)	588	
Deferred tax-31/12/2020	Note (iv)	-	17,150
		3,952,288	**3,952,288**

Additional Information:

i) Included in the revenue figure is sales made on special arrangement, payable by customers in two years' time at an amount of GH¢16.8 million. The cash price of the sales at the date of the sales (i.e 1 January, 2021) is estimated at GH¢15 million and the effective interest rate of the arrangement has been computed as 5.83% per annum.

ii) Non-current assets are made up of the following classes of assets:

	Cost/value GH¢000	Accumulated Depreciation at 31 December 2020 GH¢000	Carrying Value at 31 December 2020 GH¢000
Building (Land: GH¢80million)	198,000	-	198,000
Motor vehicles	41,700	16,680	25,020
Machinery & equipment	20,400	1,800	18,600
	260,100	**18,480**	**241,620**

The company revalues its buildings at a time interval sufficient to keep the carrying value close to its fair value on the market. The buildings were revalued at 31 December 2020 at GH¢198 million (Land component: GH¢80 million). The revaluation surplus shown in the trial balance represents the revaluation difference arising on the revaluation of buildings at 31 December 2020. All buildings were completed for use on 1 January 2011.The company's buildings are administrative offices and production centres. The estimated useful life of the company's buildings is 50 years. The company relocated from one of its administrative offices, and consequently sold the building for GH¢27.6 million, on 1 April 2021. The revaluation amount and the revaluation surplus on this building at 31 December 2020 were GH¢25 million (Land component: GH¢5 million) and GH¢8 million respectively. The remaining Land and Buildings were revalued on 31 December 2021 at

GH¢169.35 million (Land component: GH¢85 million). It is the policy of the company to realise revaluation surplus only upon derecognition of the non-current asset.

The disposal of the building and the current year revaluation of the remaining buildings are yet to be recorded in the books of the company. The consideration for the disposal of the building was received in the first week of January 2022.

There were no other changes in the value of property, plant and equipment for the year ended 31 December, 2021.

The trial balance excludes depreciation expense for the year ended 31 December 2021 on all non-current assets. Depreciation is charged to cost of sales. Motor vehicles, Machinery & equipment are all depreciated over five-years useful life.

iii) In lieu of cash dividend payment, the company on 1 January, 2021 issued bonus shares of one new share for every ten existing shares held at the agreed price of GH¢1, subject to 8% withholding tax on capitalisation of dividend. The 8% tax withheld has been paid by the company, and it is included in administrative expenses. The bonus shares are yet to be recorded. The bonus shares are in respect of the year ended 31 December 2020.

The Board of Directors of the company has, however, immediately after 31 December 2021, proposed dividend of GH¢0.80 per share in respect of the year ended 31 December 2021. Shareholders are yet to approve the proposed dividend.

iv) Provision for tax represents the under/over provision of tax by the company, arising from differences in the tax provided for the year ended 31 December 2020 and the actual tax liability arising from tax audit for the 2020 year of assessment. Current tax for the year ended 31 December 2021 is estimated at GH¢16.7 million. Taxable temporary differences arising from differences in carrying amounts of assets and liability as against their tax bases, as at 31 December 2021 have been computed as GH¢60 million. Corporation tax is 25%.

Required:

Prepare the following financial statements of Beposo Ltd for the year ended 31 December 2021:

i) Statement of profit or loss and other comprehensive income
ii) Statement of changes in equity
iii) Statement of financial position as at that date.

(Total: 20 marks)

QUESTION FOUR

Besease Ltd in the year ended 31 December 2020 won best food brand and best manufacturing business in the country despite the negative impact of the Covid-19 pandemic. This impact is still felt by businesses in the manufacturing sector, and the Board of Directors of the company is therefore keen to know the comparative performance of the company for the year ended 31 December 2021.

Below are the financial statements of the company for the year ended 31 December 2021.

Statement of comprehensive income for the year ended 31 December

	2021	2020
	GH¢	GH¢
Revenue	7,315,927	6,184,754
Cost of sales	(4,322,986)	(3,441,339)
Gross profit	**2,992,941**	**2,743,415**
Other income	330,812	280,832
Administrative expenses	(2,511,179)	(2,648,987)
Operating profit	**812,574**	**375,260**
Finance cost	(496,913)	(174,872)
Profit before tax	**315,661**	**200,388**
Taxation	(188,621)	(30,700)
Profit for the year	**127,040**	**169,688**

Statement of financial position as at 31 December

	2021	2020
Assets	GH¢	GH¢
Non-current assets		
Property-plant & equipment	9,224,988	5,102,799
Intangible assets	35,824	33,350
Investments in securities	36,629	36,629
	9,297,441	**5,172,778**
Current assets		
Inventories	2,878,337	1,329,279
Trade receivables	1,875,594	2,246,747
Cash and bank balances	527,412	372,081
	5,281,343	**3,948,107**
Total assets	**14,578,784**	**9,120,885**
Equity & Liabilities:		
Equity		
Share capital	217,467	217,467
Retained Earnings	1,289,140	1,162,100
Credit reserve	826,528	1,102,037
	2,333,135	**2,481,604**
Non-current liability		
Interest bearing loan	6,708,598	2,800,223
Deferred taxation	187,624	186,304
	6,896,222	**2,986,527**

Current liabilities		
Trade payables	1,257,693	1,550,466
Taxation	118,337	101,391
Other payables	2,993,667	1,021,167
Accrued expenses	979,730	979,730
	5,349,427	**3,652,754**
Total equity & liabilities	**14,578,784**	**9,120,885**

The Finance Manager of the company has selected the following performance ratios:

i) Return on capital employed (capital employed = interest bearing debt + shareholder's fund) (%)
ii) Return on Equity (%)
iii) Acid test ratio (times)
iv) Debt-to-equity ratio
v) Interest cover ratio (times)

Required:

Write a report to the Board of Directors of Besease Ltd assessing the comparative performance of the company for the year ended 31 December 2021.

(Total: 20 marks)

QUESTION FIVE

a) An important aspect of the International Accounting Standards Board's Framework for the preparation and presentation of financial statements is that transactions should be recorded based on their substance over their form.

Required:
Explain why it is critical for financial statements to reflect substance over their form. **(5 marks)**

b) It is said that ethics starts with preparers of financial information. Accountants in business are responsible for the preparation and presentation of accounting information.

Required:
i) Explain **TWO (2)** responsibilities of Accountants in business with regard to the statement above in the preparation of financial information. **(2 marks)**
ii) Explain **TWO (2)** difficult circumstances where an Accountant in Business could be pressured to act unethically. **(3 marks)**

c) The main objective of ***IFRS 5: Non-current Assets Held for Sale and Discontinued Operations*** specifies, among others, accounting for, the presentation, and disclosure of discontinued operations.

Required:
With reference to IFRS 5, define a ***discontinued operation*** and explain why the disclosure of such information is important to users of financial statements. **(5 marks)**

d) The consideration given by an investor to acquire an interest in an investee may be settled in different forms such as cash, deferred, share exchange or contingent consideration. The contingent consideration may be in the form equity or asset/liability.

Required:
Explain the distinction between the treatment of ***contingent consideration classified as equity*** and ***contingent consideration classified as either asset or liability***. **(5 marks)**

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

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

Assets:	**GH¢000**
Non-current assets:	
(185,400+93,000-72000 +Investment property ((36,600+10,800-(33,000 +12,000))	208,800
Current assets	
Inventory (76,200+31,800-875)	107,125
Other current assets (58,200+24,000+4,500contingent)	86,700
	193,825
Total assets	**402,625**
Equity and liabilities	
Share capital	120,000
Retained earnings (W5)	108,865
	228,865
Non-controlling interest (W4)	11,960
Total equity	240,825
Non-current liabilities	
Deferred tax (30,000+4,000)	34,000
Current liabilities	
Trade payables and accruals (66,600+61,200)	127,800
Total equity and liabilities	**402,625**

Workings:

1. **Group structure**

Tarkwa

80%
20%

Awaso (6 months)

2. **Net assets schedule**

	Acq. date GH¢000	Rep. date GH¢000	Post-acq GH¢000
Share capital	50,000	50,000	-
Retained earnings			
Balance at 1/1/2021	51,600	51,600	-
For the year ended 31/12/2021 (see below)	(9,000)	(18,000)	(9,000)
Fair value adj. – property (see below)	5,000	-	(5,000)
Investment property (12,000-10,800)	-	(1,200)	(1,200)
	97,600	82,400	(15,200)

Note:

1. *Post-acquisition loss is given by 6/12 x 18,000 = 9,000*
2. *Fair value already included in Awaso's retained earnings requires adjustment from post-acquisition to pre-acquisition. However, no ADJUSTMENT is required for the related depreciation since depreciation is a postacquisition adjustment item.*

3. **Goodwill**

	GH¢000
Cost of investment	
Immediate cash payment (80% x 50,000 x 1.80)	72,000
Contingent consideration (return)	(4,000)
	68,000
Add: Fair value of NCI (20% x 50,000 x 1.50)	15,000
	83,000
Less: Net assets at acquisition	(97,600)
Negative goodwill	(14,600)

4. **Non-controlling interests**

	GH¢000
Fair value of NCI at acquisition	15,000
Add: NCI % of Nungua's post –acquisition movements:	
(20% x 15,200)	(3,040)
NCI at reporting	11,960

5. **Retained earnings**

Parent	GH¢000
Balance b/d (73,200+30,000)	103,200
PUP on inventory (35/135 x 6,750 x 50%)	(875)
Increase in contingent consideration (4,500-4,000)	500
Gain on investment property (36,600-33,000)	3,600
	106,425
Subsidiary	
Parent's share of post-acquisition loss (80% x 15,200)	(12,160)
Negative goodwill	14,600
At reporting	**108,865**

(80 ticks @ .025 marks each = 20 marks)

EXAMINER'S COMMENTS

The question required candidates to prepare consolidated statement of financial position involving a Parent and a Subsidiary. The poor performance of the candidates may be due to the fact that some of the items in the question [contingent consideration, contingent refund of paid consideration and reversal of unwound discount] were unfamiliar to the candidates. Many lecturers ignore such areas.

Student and lecturers are therefore advised to ensure total coverage of IAS 27, IAS 28, IFRS 3, IFRS 10, IFRS 11, IFRS 12 and IFRS 13 in their preparation for consolidated financial statement presentation.

QUESTION TWO

a) The impairment loss for the CGU is GH¢2.2 million (GH¢11.8 million – GH¢9.6 million). The impairment loss is initially allocated to the goodwill balance of GH¢1.4 million. The unallocated impairment loss is GH¢0·8 million. This is allocated to the brand and PPE based on their carrying amounts:

	GH¢ million
Brand name	2
Property, plant and equipment	6
	8

2/8 x GH¢0.8 = 0.2 loss to be allocated to brand so new carrying amount = GH¢2 million – GH¢0.2 million = GH¢1.8 million. **(5 marks)**

b) The alteration costs of GH¢13.2 million should be capitalised, and not charged as an expense. A provision for restoration costs of GH¢6.65 million (GH¢10 million x 0.665) should also be recognised and capitalised as part of the carrying amount of the asset. Therefore, the required adjustments per IFRS 16 are:

	GH¢ million
DR Property, plant and equipment	19.85
CR Retained earnings	13.2
CR Non-current liabilities	6.65

Marks Allocation:
Capitalization of alteration cost = 1 mark
Making provision for restoration cost = 2 marks
Increase of Property, plant and equipment = 2 marks
5 marks

c) **Repayment of government grant**
Repayment of government grant of 50%
Recording date of grant = 1/1/2019
At the date of recording, Bank a/c was debited and grant a/c was credited using the deferred income method.
Amortization income = GH¢3,000,000/5 = GH¢600,000 p.a
Repayment date = 1st January 2021
Deferred income balance as at repayment date = 3 years x 600,000 = GH¢1,800,000

The accounting entries for the 50% repayment of the grant is done prospectively (i.e. GH¢1,500,000) as follows:
Debit Grant a/c GH¢1,500,000
Credit Bank a/c GH¢1,500,000

The repayment entry has been made in the books, but the debit entry has been made to administrative expenses. The wrong entry is reversed as follows:
Debit Grant a/c GH¢1,500,000
Credit Administrative expenses GH¢1,500,000

The balance of deferred grant income after the repayment is GH¢300,000 (1,800,000 – 1,500,000).

(7 marks evenly spread using ticks)

d)
Contingent liability:
- a possible obligation depending on whether some uncertain future event occurs, or
- a present obligation but payment is not probable or the amount cannot be measured reliably.

(1.5 marks)

Contingent asset:
- a possible asset that arises from past events, and
- whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

(1.5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 2 required candidates to demonstrate knowledge of contents and application of IAS 36, IFRS 16, IAS 20, and IAS 37. It was a straight forward question but regrettably, it was the worst answered question.

QUESTION THREE

Beposo Ltd

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

	GH¢000
Revenue(W10)	2,632,950
Cost of sales (W5)	(1,871,825)
Gross profit	761,125
Other income	2,725
Administrative expenses (W7)	(396,300)
Other operating expenses	(273,750)
Profit before interest and tax	93,800
Finance Income (W1)	874.50
Profit before tax	94,674.50
Tax expense (W9)	(15,138)
Profit for the year	**79,536.50**
Other comprehensive income	
Reversal of revaluation surplus	(1,200)
Total comprehensive income	**78,336.50**

Beposo Ltd

Statement of changes in equity for the year ended 31 December 2021

	Share Capital GH¢000	Retained Earnings GH¢000	Revaluation Surplus GH¢000	Total GH¢000
Balance at Jan 1	900,000	168,750	98,000	1,166,750
Disposal-revalued asset		8,000	(8,000)	-
Total comprehensive income		79,536.50	(1,200)	78,336.50
Bonus shares	82,800	(82,800)		-
8% WHT on bonus shares		(7,200)		(7,200)
Balance at December 31	**982,800**	**166,286.50**	**88,800**	**1,237,886.50**

Beposo Ltd
Statement of financial position as at 31 December 2021

	GH¢000	GH¢000
Non-current assets:		
Property, Plant & Equipment (W4)		200,550
		200,550
Current assets		
Inventory	173,700	
Trade and other receivables (W11)	204,424.50	
Cash and Bank	823,050	1,201,174.50
Total assets		**1,401,724.50**
Equity & Liabilities:		
Equity:		
Share capital		982,800
Retained earnings		166,286.50
Revaluation surplus		88,800
		1,237,887
Non-current liabilities:		
Deferred tax liability (W9)		15,000
Current tax liabilities		
Trade payables	131,838	
Current tax liability	16,700	
		148,538
Total Equity & Liabilities		**1,401,724.50**

Workings:

1. **Revenue with significant financing component**

Sales has been made on credit-terms beyond one-year. Thus, time value of money becomes important and hence there is a financing component included in the revenue in accordance with IFRS 15, *Revenue from contract with customers*. This financing component has to be separated from the revenue itself. The revenue is recorded at the cash price, and the interest or finance cost recognized using the effective interest rate implicit in the arrangement of 15.83%.

Debit Revenue GH¢1,800,000
Credit Trade receivables GH¢1,800,000
Financing component (interest) in revenue recorded, reversed.

At the end of the year interest unwound is GH¢874,500 (5.83% of GH¢15,000,000).
Debit Trade receivable GH¢874,500
Credit Finance income GH¢874,500

2. **Gain/loss on disposal and revaluation loss on building**
   Date of acquisition of buildings is 1 January 2011.
   The useful life of the asset = 50 years
   Expired/used life as at 31st December 2020 = 10 years
   Remaining useful life as at 31st December 2020 = 50- 10= 40 years

   Disposal of building on 1st April, 2021

   Depreciation on disposed building = (GH¢25m – GH¢5m)/40 x 3/12 = GH¢125,000
   Carrying value = GH¢25,000,000 – GH¢125,000 = GH¢24,875,000
   Gain on disposed asset = GH¢27,600,000 – GH¢24,875,000
   = GH¢2,725,000

   There is revaluation surplus of GH¢8,000,000 held in respect of the disposed asset. This will be realized by the entity as follows:

Debit	Revaluation surplus a/c	GH¢8,000,000
Credit	Retained earnings	GH¢8,000,000

   Depreciation on remaining buildings = (198m – 80m-20m)/40 = GH¢2,450,000
   Carrying value of remaining buildings at 31st December 2021;

Cost (198m – 25m)	173,000,000
Depreciation	(2,450,000)
	170,550,000

   Revaluation amount at 31st December 2021 is GH¢169,350,000.
   Revaluation loss = GH¢169,350,000 - GH¢170,550,000
   = GH¢1,200,000

   Depreciation on other assets:
   Motor vehicle = GH¢41,700,000/5 = GH¢8,340,000
   Machinery & equipment = GH¢20,400,000/5 = GH¢4,080,000

   Note: m = million

3. **Depreciation**

	GH¢000
Building-disposed	125
Building-existing	2,450
Motor vehicle	8,340
Machinery & equipment	4,080
	14,995

4. **Carrying value of PPE as at 31 December 2021**

	GH¢000
Building	169,350
Motor vehicle(25,020 - 8,340)	16,680
Machinery & equipment (18,600 -4,080)	14,520
	200,550

5. **Cost of sales**

	GH¢000
Balance per Trial balance	1,856,830
Depreciation (W3)	14,995
	1,871,825

6. **Bonus share issue**

Bonus shares = 1/10 x 900,000,000 x GH¢1= GH¢ 90,000,000
Withholding tax = 8% of GH¢90,000,000 = GH¢7,200,000
Net amount issued to shareholders = GH¢90,000,000 – GH¢7,200,000 = GH¢82,800,000

Proposed dividend is disclosed in the financial statements. It is not recognized since there is no liability in the absence of shareholders' approval as at the year-end in accordance with IAS 10, *Events after the balance sheet date.*

7. **Administrative expenses**

	GH¢000
Balance per trial balance	405,000
Grant repayment	(1,500)
8% WHT	(7,200)
	396,300

8. **Other income**

	GH¢000
Gain on disposal (W2)	2,725
	2,725

9. **Tax expense**

		GH¢000
Current tax		16,700
Under-provision		588
Deferred tax:		
Balance at end	15,000	
Balance at start	17,150	(2,150)
		15,138

Deferred tax liability = 25% of GH¢60,000,000 =GH¢15,000,000

10. **Revenue**

	GH¢000
Balance per trial balance	2,634,750
Interest-financing portion	(1,800)
	2,632,950

11. **Trade and other receivables**

	GH¢000
Balance b/f	177,750
Financing component-interest	(1,800)
Unwound interest	874.50
Proceeds receivable-disposed asset	27,600
	204,424.50

(80 ticks @0.25 per tick = 20 marks)

EXAMINER'S COMMENTS

The question 3 required candidates to prepare statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position. It was a straight forward question but the note 2 was quite loaded. It required only a few workings to determine the following:

- Deferred credit
- Depreciation charge
- Revaluation surplus
- Profit on disposal of non-current asset
- Bonus issue
- Dividend paid to shareholders and Dividend proposed
- Taxation – Current Tax and Deferred Tax

Unfortunately, less than 5% of the candidates could obtain more than 10 marks (out of 20 marks)

QUESTION FOUR

Besease Ltd
Memorandum

To: The Board of Directors
From: The Finance Manager
Date: 1/4/2022

Subject: Analysis of the performance of Besease Ltd for year 2020
This report assesses the performance of Besease Ltd for the year ended 31 December 2021 as compared to the performance of the comparative financial year ended 31 December 2020. The report should be read in addition to the attached appendix.
The company's performance is assessed on the basis of profitability, liquidity, efficiency and its gearing.

Profitability
The revenue of the company increased in the 2021 year over that of the 2020 year. The company in the 2021 year generated profit of GH¢0.09 for all its long-term capital providers, whiles in 2020, the returns generated for these investors was GH¢0.07. The company's profitability improved therefore in this regard. However, focusing on only the shareholders of the company, the increase in revenue did not result in increase in earnings of shareholders per their investment. Earnings of GH¢0.05 was made in 2021 whiles the comparative earnings was GH¢0.06 per every cedi shareholders' fund. The reduction was as a result of reduction in profit after tax, precipitated by significant increase in finance or interest cost. Interest cost increased by 184.16%. The company increased its debt by 139.57% in the 2021 year.

The trading profit of the company per every cedi revenue generated declined in the 2021 year relative to the 2020 year. In the current year, trading profit of GH¢0.40 per GH¢1 revenue was made whiles in 2020, the trading profit was GH¢0.44 per GH¢1 revenue. The reduction in trading in profit is suggestive of the decline in the performance of the company in controlling the cost of sales. Whereas revenue increased in the 2021 year by 18.29%, cost of sales increased by greater percentage at 25.62%.

Liquidity
Analysis of the statement of financial position at the year-end of the current year, 2021 and the comparative year, 2020, indicates that the capacity of the company to settle its current liabilities when they become due diminished in 2021. The current assets in 2021 could cover the current liabilities 0.99 times, but in 2020, it could cover it 1.08 times. Excluding least liquid assets such as inventory also indicates that the company is less liquid in 2021 than in 2020, as measured by the acid-test ratio.

Efficiency
There has been an increase in the days inventory of the company takes before they are sold. Whereas in 2020, the average days was 141, in 2021, it increased to 243. This is not a positive performance.

However, the company's receivable collection improved in the 2021 year. Trade receivables at the year-end of 2021 was lower than that of 2020, even though revenue increased in the 2021 year. The average collection days for the receivables in the 2021 year was 94 days as against the comparative year's 133 days.

The company however had a shorter credit period from its purchases in the 2021 year as compared to the comparative year's. This is not good for cash flow management. On average, the company was given 106 days for payment of credit purchases in the 2021 year, but in the comparative year, the company had ample time of 164 days. The lower trade payables figure at the year-end of 2021 compared to that of the 2020 year supports the fact that suppliers were paid earlier in 2021 relative to the 2020 year.

Gearing
In the year 2021, the company's long-term debt employed was 2.88 times of the equity funds. However, in the comparative year, the company's gearing was 1.13 times of equity. The company is highly geared following the significant increase in debt capital employed in the 2021 of 139.57%.

Thus, financial risk of the company increased in the 2021 year culminating in return on equity reducing in the 2021 year even though profit before interest and taxes increased significantly by 116.54%. The company's ability to pay the annual "strain" on its cash flows of interest cost through profit from operations has also reduced. Whereas in the 2020 year the available profit could cover the interest expense by 2.15 times, in 2021, available profit could cover the interest expense by 1.64 times.

Conclusion
The company's profit generated for all investors increased in the 2021 year, but earnings available for ordinary shareholders reduced. There was also a decline in the company's ability in controlling the cost of sales and liquidity of the company also declined in the 2021 year. The trade receivable collection improved in the 2021 year, but there was an adverse change in the credit days offered by suppliers in the 2021 year. The company's gearing worsened in the 2021 year.
Signed
Finance Director

Appendix

RATIOS	FORMULA	2021	2020
Profitability:			
Return on capital employed	$=\frac{PBIT}{Capital\ employed}\ x\ 100$	$\frac{812{,}574}{9{,}041{,}733} x100$ =8.99%	$\frac{375{,}260}{5{,}281{,}827} x100$ =7.10%
Return on Equity	$=\frac{PAT}{Equity}\ x\ 100$	$\frac{127{,}040}{2{,}333{,}135} x100$ =5.45%	$\frac{169.688}{2{,}481{,}604} x100$ =6.84%
Liquidity			
Acid-test ratio	$=\frac{current\ assets - Inventory}{current\ liabilities}$	$\frac{5{,}281{,}343 - 2{,}878{,}337}{5{,}349{,}427}$ =0.44:1	$\frac{3{,}948{,}107 - 1{,}329{,}279}{3{,}652{,}754}$ =0.72:1
Efficiency			
Gearing:			
Interest cover ratio	$\frac{PBIT}{Interest\ expense}$	$\frac{812{,}574}{496{,}913}$ =1.64 times	$\frac{375{,}260}{174{,}872}$ =2.15 times
Debt-to-equity ratio	$\frac{Long - term\ debt}{Equity}$	$\frac{6{,}708{,}598}{2{,}333{,}135}$ =2.88: 1	$\frac{2{,}800{,}223}{2{,}481{,}604}$ =1.13:1

(Total = 20 marks)

EXAMINER'S COMMENTS

The question required candidates to complete some ratios and to use the results to analyse the performance of an entity (against that of a previous year and that of Industrial average).

The question was very clear in meaning but nature of the figures made the calculation of the ten ratios quite time consuming.
This was the best answered question. Almost all the candidates calculated the ratios correctly and gave good interpretation.

QUESTION FIVE

a) Substance over form is an accounting concept that requires the financial statements of a business to reflect the underlying realities of accounting transactions.

This means that the economic substance of transactions and events must be recorded in the financial statements rather than just their legal form in order to present a true and fair view of the affairs of the entity. The information appearing in the financial statements should not merely comply with the legal form in which they appear.

The concept entails the use of judgment on the part of the preparers of the financial statements in order for them to derive the business sense from the transactions and events and to present them in a manner that best reflects their true essence. Whereas legal aspects of transactions and events are of great importance, they may have to be disregarded at times in order to provide more useful and relevant information to the users of financial statements.

Some examples of applying the substance over form concept are:

- **Leases**: If an asset is leased to a lessee without the transfer of legal title, but the lease term is substantially for the entire useful life of the asset or the lessee has an option to purchase the asset at a very nominal price, then the lease may be considered as a finance lease rather than an operating lease. This means that the lessee should recognize the asset and a corresponding liability on its balance sheet, rather than just recording lease payments as expenses.
- **Revenue recognition:** If an entity sells inventory to someone and agrees to buy it back after a specified time at an inflated price, then no sale has actually occurred. The transaction is in fact a financing arrangement in which the seller has obtained a loan secured by the inventory. The seller should not recognize revenue from the sale, but rather a liability for the loan and a finance cost for the difference between the loan amount and the buyback price.
- **Sale and leaseback:** If an entity sells its machinery to a bank and then leases it back from the bank, then the legal ownership has changed but not the economic reality. The entity still uses the machinery as before.

Financial statements must contain specific features in order to be useful to their users; one such characteristic is reliability. Financial statements must accurately portray an entity's underlying transactions and other events in order to be trusted. Transactions must be accounted for and presented in line with their substance and economic reality where this differs from their legal form for financial statements to be faithfully represented. For example, if an entity 'sold' an asset to a third party yet continued to profit from the asset's future benefits, the transaction would not be accurately represented by documenting it as a sale (in all probability this would be a financing transaction).

The features that may indicate that the substance of a transaction is different from its legal form are:

- where the control of an asset differs from the ownership of the asset
- where assets are 'sold' at prices that are greater or less than their fair values
- the use of options as part of an agreement
- where there are a series of 'linked' transactions. It should be noted that none of the above necessarily mean there is a difference between substance and legal form.

(1 mark per valid point up to a maximum of 5 marks)

b)

i) Responsibilities of Accountants in business

- Accountants in business need to ensure that they do not prepare financial information in a way that is misleading or that does not show a true and fair view of the entity's operations.
- Accountants must ensure that the information they prepare are technically correct, reports the substance of the transaction and is adequately disclosed.

(2 points @ 1 mark each = 2 marks)

ii) Difficult circumstances faced by Accountants in business

- There is a danger of influence from Senior Managers to present figures that inflate profit or assets or understate liabilities.
- There is the possibility of one losing his or her job if they do not comply with their managers wishes.

(2 points @ 1.5 marks each = 3 marks)

c) A discontinued operation is a component (see below) of an entity that has either already been disposed of or is classified as held for sale that represents a separate major line of business or geographical area of business operations (or is part of a co-ordinated plan to dispose of such). It also applies to a subsidiary that is acquired specifically with a view to resale. A component of an entity has operations and cash flows that are clearly distinguished for reporting purposes from those of the rest of an entity. It would normally be a cash generating unit (or a group of cash generating units) or a subsidiary. This information is important to users of financial statements when they are forming an assessment of the likely future performance of an entity.

For example, if a group made a large profit from one of its subsidiaries that it has recently sold (or will soon sell), this will have a material effect on any forecast of the group's future profit. This is because the profits from the subsidiary disposed of will no longer contribute to future group profit (though the re-investment of any sale proceeds from the disposal could). Also, the converse would be true where the disposal or closure of a loss-making subsidiary could improve future profitability.

(5 marks)

d) **Contingent consideration classified as a liability or an asset:**

Contingent consideration classified as either an asset or a liability (financial or nonfinancial) should be remeasured to fair value at each reporting date and changes in fair value should be included in profit or loss in accordance with IAS 39 or IFRS 9. **(2 marks)**

Contingent consideration classified as equity: Equity-classified contingent consideration is measured initially at fair value on the acquisition date and is not remeasured subsequent to initial recognition. Settlement of the equity-classified contingent consideration is accounted for within equity. In other words, the initial value recognized for an equity contingent consideration arrangement on the acquisition date is not adjusted, even if the fair value of the arrangement on the settlement date is different. **(3 marks)**

(Total: 20 marks)

EXAMINER'S COMMENTS

The question required candidates to demonstrate knowledge in the content and application of IASB Conceptual Framework, Code of Ethics for Accountants, IFRS 5 and IFRS 3. Many candidates could not provide the right answers.

RECOMMENDATION

- Preparing for Financial Reporting examination requires working as many questions as possible. Read the theories and solve the practical questions.
- In the examination room, try and allocate your time evenly over the questions, based on the marks allocation. Note that each mark requires 1.8 minutes so the maximum time to be allocated to a 20 mark question is 36 minutes.
- You must also provide the answers in direct responses to the requirements of the respective questions. Try to avoid deviation.