

**MARCH 2024 PROFESSIONAL EXAMINATIONS
CORPORATE REPORTING (PAPER 3.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

STANDARD OF THE PAPER

The standard of the paper was generally less challenging than the previous diet. Although the questions were based on the syllabus and were largely straight forward and of the right level, the nature of the questions 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 generally better than the previous diet. 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

Sankom Ltd (Sankom) in the last three years acquired **Makpa** and **Biiri**. The statement of financial position for the three companies as at 31 December 2023 are as follows:

	Sankom GH¢000	Makpa GH¢000	Biiri GH¢000
Property, plant and equipment	102,800	101,120	88,480
Investment property	23,600	-	-
Investments in:			
Makpa	112,000		
Biiri	88,000		
Current assets	<u>25,280</u>	<u>20,224</u>	<u>17,696</u>
Total assets	<u>351,680</u>	<u>121,344</u>	<u>106,176</u>
Equity & liabilities:			
Share capital (GH¢1 per share)	160,000	64,000	56,000
Retained earnings	108,480	22,784	19,936
Other component of equity	<u>2,400</u>	<u>1,920</u>	<u>1,680</u>
	<u>270,880</u>	<u>88,704</u>	<u>77,616</u>
Liabilities:			
Current liabilities	65,632	20,505.60	17,942.40
Non-current liabilities	<u>15,168</u>	<u>12,134.40</u>	<u>10,617.60</u>
Total equity and liabilities	<u>351,680</u>	<u>121,344</u>	<u>106,176</u>

Additional information:

- i) The following information relates to the acquisition of Makpa and Biiri

Acquisitions	Date of acquisition	Shareholding percentage	Purchased full Goodwill arising from the acquisitions (GH¢000)
Makpa	1 January 2021	80%	44,800
Biiri	30 June 2022	60%	38,400

At the date of acquisition, the values of the assets and liabilities of Biiri were already recognised at their fair values and hence no fair value adjustments were required. However, an upward fair value adjustment of GH¢4,400,000 was required for a production machinery of Makpa. The remaining useful life of the production machinery as at the acquisition date was five years. This adjustment is yet to be made in the individual financial statements of Makpa. It is the policy of the group to measure non-controlling interest at fair value.

- ii) The consolidated retained earnings and other component of equity recognised in the consolidated financial statements of Sankom group as at 31 December 2022 were GH¢63,519,200 and GH¢3,360,000 respectively. Non-controlling interest recognized under equity of the consolidated statement of financial position as at 31 December 2022 was GH¢20,000,000. All consolidation adjustments unless otherwise stated, are correctly reflected in the opening consolidated financial statements.
- iii) There had not been any sales or purchases transaction between Sankom and any of the subsidiaries acquired before the current accounting year. However, in the year ended 31

December 2023, Makpa sold goods worth GH¢2,240,000 to Biiri at a margin of 20%. 30% of these goods were yet to be sold by Biiri as at 31 December 2023.

- iv) The purchased goodwill arising from the acquisitions (stated in (i)) are the original goodwill amounts, and are thus before any impairment loss. At 31 December 2023, impairment review was carried out on the two subsidiaries, using the impairment testing procedure under *IAS 36: Impairment of assets* for cash-generating units; each subsidiary was deemed as a cash-generating unit. The recoverable amounts of the net assets of Makpa and Biiri at 31 December 2023 were GH¢133,244,800 and GH¢116,544,000 respectively. No impairment loss has been recognised in respect of the goodwill in both subsidiaries in the previous years.
- v) Sankom owns a building, which was formerly used as an administrative office. At the beginning of the current year, Sankom rented the building to Makpa at an annual rental of GH¢2,000,000 and as a result has accounted for the building as investment property. The carrying value of the building at the date of transfer to Makpa (which approximated the fair value) was GH¢22,400,000. It is the policy of Sankom to measure investment properties at fair value. A fair value gain of GH¢1,200,000 has been recognised by Sankom at 31 December 2023. The estimated remaining useful life of the building at the date of transfer was 20 years. Makpa uses the building for administrative purposes. Makpa has paid the rental for the current year and charged it as expense. Sankom has included the rental for the year as other income in the current year's profit or loss account.
- vi) Below is the summarized financial performance of the three companies for the year ended 31 December 2023 from their individual statement of profit or loss and other comprehensive income (before any consolidation adjustment):

	Sankom GH¢000	Makpa GH¢000	Biiri GH¢000
Profit for the year	16,598.40	28,499.20	28,800
Other comprehensive income	815.20	712	736

Required:

Prepare the consolidated Statement of Financial Position for Sankom Group as at 31 December 2023.

(Total: 20 marks)

QUESTION TWO

- a) Zara Plc operates within the thriving food packaging industry in Ghana. At 1 January 2020, the firm agreed to grant 10,000 shares each to 500 employees, conditional on the employees remaining in the firm's employment during the vesting period. The terms of the scheme indicated that the shares will vest at:
- 31 December 2020, if the firm's EPS growth is greater than 18%
 - 31 December 2021, if the firm's EPS growth is greater than average of 13% per year over the 2-year period
 - 31 December 2022, if the firm's EPS growth is greater than average of 10% per year over the 3-year period

The award was estimated to have a fair value of GH¢8 per share at the grant date. The following events took place during the three years at:

31 December 2020: EPS was up 14% and 30 staff left. The firm expected EPS to continue growing at the same level and hence for shares to vest at 31 December 2021. A further 30 employees were expected to leave in 2021.

31 December 2021: EPS was up by only 10%, hence share did not vest. 28 employees left during the year. The firm expected a further 25 employees to leave in 2022 and that EPS will increase by greater than 6%, thereby achieving average EPS growth rate of 10% per year.

31 December 2022: 23 employees left and EPS was up 8%. Average EPS over the three-year period was greater than 10%.

Required:

Recommend how Zara Plc would account for the share-based payment scheme during the years ended 31 December 2020, 2021 and 2022. Show extracts from only 2021 financial statements. **(8 marks)**

- b) Sikaman Plc has three cash generating units (CGUs), a head office and a research facility. The carrying amounts of the assets and their recoverable amounts are as follows.

	Unit X	Unit Y	Unit Z	Head office	Research facility	Sikaman Plc
	GH¢m	GH¢m	GH¢m	GH¢m	GH¢m	GH¢m
Carrying value	500	700	1,000	750	250	3,250
Recoverable amount	645	820	1,355	-	-	2,920

The assets of the head office can be reasonably allocated to the three units as follows:

- Unit X: GH¢95m
- Unit Y: GH¢280m
- Unit Z: GH¢375m

The assets of the research facility cannot be reasonably allocated to the CGUs.

Required:

Assuming all assets can be adjusted for impairment, show how the revised/adjusted carrying values of the assets of Sikaman Plc should be determined in line with **IAS 36: Impairment of assets** after taking into account any impairment losses in the above scenario. Show the relevant financial statements extracts. **(7 marks)**

- c) Odjani Plc (Odjani) negotiates with major local and international airlines to purchase tickets at reduced rates compared with the price of tickets sold directly by the airlines to the public. Odjani agrees to buy a specific number of tickets and must pay for those tickets regardless of whether it is able to resell them. The reduced rate paid by Odjani for each ticket purchased is negotiated and agreed in advance. Odjani determines the prices at which the airline tickets will be sold to its customers. Odjani sells the tickets and collects the consideration from customers when the tickets are purchased. The entity also assists the customers in resolving complaints with the service provided by the airlines. However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.

Required:

In line with **IFRS 15: Revenue from contracts with customers**, explain whether Odjani is a principal or agent and indicate how it would determine the amount of revenue to recognise from the ticket sales. **(5 marks)**

(Total: 20 marks)

QUESTION THREE

- a) Mongu Plc (Mongu) is a diversified entity listed on the Ghana Stock Exchange. Its financial year ends on 30 September.

On 1 April 2023, Atta Martey, the Executive Director of Banzy Plc provided funds of GH¢65 million for an expansion project of Ahenkro Ltd (Ahenkro), a subsidiary company of Mongu. Banzy Plc held 52% of the voting shares of Mongu as at 30 September 2023. Atta Martey does not hold directorships in Mongu's or Ahenkro's boards. Ahenkro issued shares worth GH¢65 million to Atta Martey on 20 October 2023 to settle the amount payable to him.

Required:

Recognise the related parties for the financial statements of Mongu Plc from the facts above for the year ended 30 September 2023 and the disclosure requirements on the identified related parties per **IAS 24: Related Party Disclosures**. **(5 marks)**

- b) On 1 December 2022, Pinto Ltd (Pinto), a public company acquired 70% of the ordinary share capital of Manpam Inc (Manpam), a private company in Liberia. The functional currency of Pinto is the GH¢ and the functional currency of Manpam is the Liberia dollar (L\$). Pinto paid GH¢39.1 million for its investment in Manpam on 1 December 2022, when the net fair value of the identifiable assets acquired and liabilities assumed of Manpam were L\$22,440 million.

Given that Manpam is a private company, Pinto decided to measure the non-controlling interests at acquisition at the proportionate share of the fair value of the identifiable net assets of Manpam. An impairment test conducted at group level on the investment in Manpam at 31 December 2023 indicated impairment loss on Goodwill of L\$357 million (attributable to Pinto). No impairment loss adjustments had been necessary at the previous year end.

Relevant exchange rates were:

1 December 2022	GH¢1 = L\$470
31 December 2022	GH¢1 = L\$478
31 December 2023	GH¢1 = L\$490

Required:

In accordance with IFRS, calculate the goodwill figure to be recognised in the consolidated statement of financial position of Pinto for the year ended 31 December 2023 (to the nearest GH¢0.1 million). **(5 marks)**

- c) The directors of Akilapa Ltd are involved in takeover talks with Bongo Partners. In the discussions, Mr Mensah, the Managing Director of Akilapa Ltd stated that there was no point in considering issues of ethics because the purpose of the takeover is to increase the market share of the company and ultimately increase the profit of the firm. In seconding his point, Miss Benkro indicated that in adopting a pragmatic approach to the takeover, there was no ethical issue in considering a third-party in relation to Bongo Partners because, in her opinion, the takeover will not benefit the third party but the company and the society.

During the meeting, Dr Worlanyo who was the previous Accountant of Bongo Partners before moving to Akilapa Ltd was involved in drafting the financial statements and provided a positive approval of the takeover bid. Upon receipt of the recommendation, a member of the board of directors found that there are indications that several of Bongo Partners's Non-current assets might be impaired.

Required:

- i) Comment on the views of Mr Mensah and Miss Benkro regarding the fact that there is no point in considering ethical issues in the takeover bid. **(4 marks)**
- ii) Assess the ethical issues in this scenario and explain how they should be addressed. **(6 marks)**

(Total: 20 marks)

QUESTION FOUR

- a) Flossybeats Ltd is a major competitor of Meddy Ltd in the telecommunication industry. Flossybeats Ltd is listed on the Ghana Stock Exchange with a P/E ratio of 11 and a dividend yield of 7.2%. Directors of Flossybeats Ltd have been presented with a proposal to merge with Meddy Ltd which owns 45% of the market share but not yet listed. The summarized financial statements of Meddy Ltd for the year 2023 are given below:

Statement of Financial Position as at 31 December 2023

	GH¢
Non-Current Assets	
Property, Plant and Equipment	2,190,000
Trademark	600,000
Investment Property	570,000
Current Assets	
Inventories	352,500
Trade Receivables	<u>450,000</u>
	<u>4,162,500</u>
Financed by:	
Share capital (GH¢0.80 per share)	1,800,000
Retained earnings	<u>300,000</u>
	2,100,000
Non-Current Liabilities	
15% Debenture	270,000
Long Term Loans	1,312,500
Current Liabilities	
Trade Payable	<u>480,000</u>
	<u>4,162,500</u>

Summarised Statements of Profit or loss and other comprehensive statement for the year ended 31 December 2023

	GH¢
Profit before tax	930,000
Tax	<u>(300,000)</u>
	<u>630,000</u>
Interim Dividends paid	114,750

Additional information:

- i) An existing property included in property, plant and equipment with a carrying value of GH¢675,000 could be developed as a site for residential use at a cost of GH¢75,000 and would then be worth GH¢975,000. The remaining property, plant and equipment can be used to generate a net cashflow of GH¢300,000 each year for the foreseeable future.
- ii) The worth of the Investment Property is difficult to value, as there is no active market. A normal sale in the present condition could be reasonably expected to yield GH¢600,000 based on an analysis of transactions in similar assets.

- iii) The trademark represents a license to produce and sell a special product which is expected to generate an after-tax profit of GH¢1,500,000 over the next four years. The expected after-tax profit projection was made without the consideration of amortisation of the book value of the trademark over the same period.
- iv) The discounted present value of future cash payments in respect of long-term loan is GH¢975,000. The discount rate of Meddy Ltd is 25% per annum but the financial controller asserts that beta of the company is 1.5. The Treasury bill rate and the return on the market are estimated to be 16% and 23% respectively.
- v) Dividend payments of Meddy Ltd in 2022 was GH¢112,500. The dividend growth achieved in 2023 is expected to be sustained in the foreseeable future.

Required:

Advise the directors of Meddy Ltd on the value to be placed on the ordinary shares using:

- Net Assets Method
 - Constant Dividend Method
 - Dividend Growth Method
 - Earning based (P/E) Method **(15 marks)**
- b) An acquirer may reacquire a right that it had previously granted to the acquiree to use one or more of the acquirer's recognised or unrecognised assets. Examples of such rights include a right to use the acquirer's trade name under a franchise agreement or a right to use the acquirer's technology under a technology licensing agreement. Such reacquired rights generally are identifiable intangible assets that the acquirer separately recognises from goodwill.

Required:

Identify **FOUR (4)** factors that should be considered in deciding on whether reacquired rights constitute an identifiable intangible asset. **(5 marks)**

(Total: 20 marks)

QUESTION FIVE

You are the Financial Consultant of Nkoso Funds, a pension fund in Ghana. Your company has identified two companies which you have been asked to evaluate as possible investments. The two companies, Trokaa Plc (Trokaa Plc) and Krokro Plc (Krokro Plc), are both publicly held and similar in size. Assume that all other publicly available information, including all climate, sustainability, and governance disclosures, have already been analysed and the decision concerning which company's shares to acquire depends on their cash flow data given below:

Statement of cash flows for the years ended December 31, 2023 and 2022

	Trokaa Plc		Krokro Plc	
	2023	2022	2023	2022
	GH¢000	GH¢000	GH¢000	GH¢000
Operating activities:				
Net profit after tax	3,400	8,800	17,800	14,200
Adjustments:				
Total	<u>(2,800)</u>	<u>(800)</u>	<u>3,800</u>	<u>-</u>
Net cash generated from operating activities (A)	<u>600</u>	<u>8,000</u>	<u>21,600</u>	<u>14,200</u>
Investing activities:				
Additions of tangible assets	(2,600)	(600)	(25,400)	(20,700)
Sale of tangible assets	<u>17,200</u>	<u>15,800</u>	<u>1,200</u>	<u>2,500</u>
Net cash generated from investing activities (B)	<u>14,600</u>	<u>15,200</u>	<u>(24,200)</u>	<u>(18,200)</u>
Financing activities:				
New bank borrowing	8,600	3,800	9,200	8,600
Payment of bank borrowing	(20,200)	(21,600)	(3,000)	(8,000)
Payment of dividends	<u>-</u>	<u>-</u>	<u>(2,400)</u>	<u>(1,800)</u>
Net cash used for financing activities (C)	<u>(11,600)</u>	<u>(17,800)</u>	<u>3,800</u>	<u>(1,200)</u>
Increase (decrease) in cash and cash equivalents (A+B+C)	<u>3,600</u>	<u>5,400</u>	<u>1,200</u>	<u>(5,200)</u>
Cash and cash equivalents b/f	<u>6,200</u>	<u>800</u>	<u>10,800</u>	<u>16,000</u>
Cash and cash equivalents c/f	<u>9,800</u>	<u>6,200</u>	<u>12,000</u>	<u>10,800</u>

Required:

- Conduct a horizontal analysis for each of the two companies. **(6 marks)**
- Write a report to the investment manager of Nkoso Funds discussing the relative strengths and weaknesses of each of the two companies. Conclude your report by recommending one company's share as an investment avenue. **(14 marks)**

(Total: 20 marks)

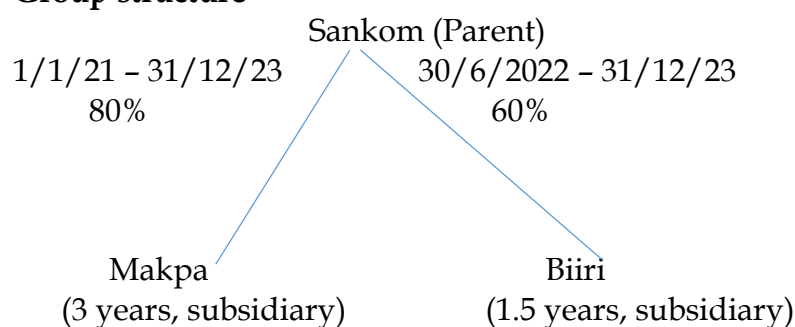
SUGGESTED SOLUTION

QUESTION ONE

Sankom Ltd group	
Consolidated statement of financial position as at 31 December 2023	
	GH¢000
Property, plant and equipment (102,800+101,120+88,480+4,400-2,640 +22,400-1,120(W7))	315,440
Investment property (23,600 - 23,600)	-
Goodwill (W2)	<u>81,315.2</u>
	396,755.2
Current assets (25,280+20,224+17,696-134.4(W3))	<u>63,065.6</u>
Total assets	<u>459,820.8</u>
Equity and liabilities:	
Stated capital	160,000
Retained earnings (W4)	115,557.6
Other component of equity (W6)	5,186.4
Non-controlling interest (W5)	<u>37,076.8</u>
	317,820.8
Liabilities:	
Current liabilities (65,632+20,505.6+17,942.4)	104,080
Non-current liabilities (15,168+12,134.4+10,617.6)	<u>37,920</u>
	<u>459,820.8</u>

Workings

1. Group structure



Summary of percentages

	Makpa	Biiri
Parent %	80%	60%
NCI %	20%	40%
Total	100%	100%

2. Goodwill at reporting date

	Makpa	Biiri	Total
	GH¢000	GH¢000	GH¢000
Goodwill at acquisition	44,800	38,400	83,200
Impairment loss (W3)	<u>(1,884.8)</u>	<u>-</u>	<u>(1,884.8)</u>
	<u>42,915.2</u>	<u>38,400</u>	<u>81,315.2</u>

3. Impairment test (loss)

	Makpa	Biiri
	GH¢000	GH¢000
Stated capital	64,000	56,000
Retained earnings	22,784	19,936
Other component of equity	1,920	1,680
PUP (2,240 x 20% x 30%)	(134.4)	-
Fair value adjustment-plant	4,400	-
Depreciation-Plant (4,400/5 x 3)	(2,640)	-
Goodwill	<u>44,800</u>	<u>38,400</u>
	135,129.6	116,016
Recoverable amount	<u>133,244.8</u>	<u>116,544</u>
Impairment loss	<u>1,884.8</u>	<u>-</u>

4. Consolidated Retained earnings

	GH¢000	GH¢000
Balance b/f		63,519.2
<u>Sankom</u>		
Profit for the year	16,598.4	
Fair value gain (W7)	(1,200)	
Depreciation investment property-reclassified (W7)	<u>(1,120)</u>	
		14,278.4

Makpa

Profit for the year	28,499.2	
Depreciation-plant (4,400/5)	(880)	
PUP-Inventory	(134.4)	
Impairment-goodwill (W3)	<u>(1,884.8)</u>	
	<u>25,600</u>	
Parent's share of profit (80% x GH¢25,600)		20,480

Biiri

Share of profit (60% x GH¢28,800)		<u>17,280</u>
		<u>115,557.6</u>

5. Non-controlling interest

	GH¢000	
Balance b/f	20,000	
Share of profit:		
Makpa (20% x GH¢25,600 (W4))	5,120	
Biiri (40% x GH¢28,800(W4))	11,520	
Share of OCI:		
Makpa (GH¢712 x20%)	142.4	
Biiri (GH¢736x40%)	<u>294.4</u>	
	<u>37,076.8</u>	

6. Other component of equity

	GH¢000	
Balance b/f	3,360	
OCI for the year-Sankom	815.2	
Makpa (GH¢712 x80%)	569.6	
Biiri (GH¢736x60%)	<u>441.6</u>	
	<u>5,186.4</u>	

7. Intercompany rental of property

The rental of the property by Sankom to Makpa qualifies as investment property, under **IAS 40, Investment property** in the separate financial statement of Sankom. However, since the building is rented by a group member, Makpa, for their administrative purpose, from the perspective of the group, it is regarded as property, plant and equipment and not an investment property. The building is thus reclassified to property, plant and equipment on the consolidated financial statement. Sankom measures its investment property at fair value, and hence must be stated back to its cost as follows:

Debit Property plant and equipment	GH¢22.4m	
Debit Retained earnings	GH¢1.2m	
Credit Investment property		GH¢23.6m

The rental income and corresponding rental expense of GH¢2m recognized by the two companies cancel out, and hence have no effect on the consolidated retained earnings.

The cost of building is also adjusted by depreciation of GH¢1.12m (GH¢22.4/20)

Debit	Retained earnings (Sankom)	GH¢1.12m
Credit	Property, plant and equipment	GH¢1.12m

(Marks are evenly distributed using 80 ticks @ 0.25 = 20 marks)

EXAMINER'S COMMENTS

Generally, candidates did not have an understanding of the opening consolidated equity balances given in the question. They failed to realise that given the opening retained earnings, other components of equity and non-controlling interest, to estimate the reporting date figures of these respective items, you need to add the change in net assets (i.e. profit after tax and other comprehensive income) for the current year only. Candidates were therefore to compute the share of the parent and NCI in the profits after tax and other comprehensive income for the current year after making relevant consolidation adjustments which pertain to the current year. Most candidates tried to compute these equity balances from the acquisition date point to reporting date, which was not possible with the given information in the question as limited information was available in completing the net assets schedules for the two subsidiaries.

The question also presented candidates with full goodwill which arose on acquisitions of the two subsidiaries. Candidates were just to present the sum of these two goodwill after considering impairment as the reporting date figure for goodwill. The generality of candidates failed to recognise this, and tried computing the respective goodwill in the two subsidiaries using the cost of investments given in the statement of financial position. This was practically not possible as the question hinted that NCI was fair valued, but no fair value of NCI was given at acquisition date and also the pre-acquisition equity balances were not furnished or practically not determinable in the question.

Goodwill impairment testing at the year-end was to be determined using the impairment testing procedure for cash generating units (CGUs) as given under **IAS 36: Impairment of assets**. Candidates failed to realise this, and those who attempted to determine the impairment loss failed to realise that the recoverable amounts given were for the respective subsidiaries, and hence for the whole cash generating units and not goodwill as an asset only. The composition of the assets in the CGUs was also a challenge to most candidates as they could not determine that the assets in the CGUs should be made up of the identifiable assets at the reporting date (after any consolidation adjustments) and the full goodwill of the subsidiaries.

Apart from the above, most candidates also had a challenge in dealing with the intragroup transaction of rental of building between Sankom (the parent company) and the subsidiary, Makpa. Candidates generally could not determine that though the building rented out in the separate financial statement of Sankom qualifies as investment property in line with **IAS 40: Investment property**, from the group's perspective, the asset best satisfies the definition of property, plant and equipment as it is being used by a group member. A reclassification from investment property to

property, plant and equipment was to be made and the fair value gain reversed. The fact that the investment property is measured at fair value means that it has not been depreciated. Depreciation on the asset from the start of the rental arrangement to the reporting date is adjusted in the parent's books.

QUESTION TWO

- a) At 31 December 2020, we have the following data:
- Shares are expected to vest in 2021 (because the average of actual EPS growth in 2020 [14%] and expected EPS growth in 2021 [14%] is greater than 13%)
 - No. of employees that departed in 2020 equals 30;
 - Additional staff expected to depart by the vesting date (i.e. 31 December 2021) = 30; \Rightarrow Shares expected to vest for $500 - 30 - 30 = 440$ employees

At 31 December 2021, we have the following data:

- Shares did not vest in 2021 because actual EPS growth in 2021 (10%) meant that average growth over 2020 & 2021 is less than 13%.
- Shares now expected to vest in 2022 (because the average of actual EPS growth in 2020 & 2021 and expected EPS growth in 2022 is greater than 10% [see vesting conditions])
- No. of employees that departed in 2020 = 30; No. that departed in 2021 = 28
- Additional staff expected to depart by the vesting date (i.e. 31 December 2022) = 25; \Rightarrow Shares expected to vest for $500 - 30 - 28 - 25 = 417$ employees

At 31 December 2022, we have the following data:

- Share options vest in 2022 because actual EPS growth in 2022 (8%) means that average actual growth over the three past years exceeds 10% (see vesting conditions)
- No. of employees that departed in 2020 = 30; No. that departed in 2021 = 28; No. that departed in 2022 = 23 \Rightarrow Share options actually vest for $500 - 30 - 28 - 23 = 419$ employees

	Computation	Cumulative expense (equity) GH¢000	Charge for the year GH¢000
2020	$10,000 \times 440 \times 8 \times 1/2$	17,600	17,600
2021	$10,000 \times 417 \times 8 \times 2/3$	22,240	4,640
2022	$10,000 \times 419 \times 8 \times 3/3$	33,520	11,280

Zara Plc

Statements of profit or loss (extract) for the years ended 31 December 2021

	GH¢000
Employee cost	(4,640)

Zara Plc

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

	GH¢000
Equity	
Share option	22,240

Any 2 valid points for explanations = 3 marks

20 ticks @ 0.25 for computations= 5 marks
8 marks

- b) For each CGU, a comparison is required between the carrying amounts and recoverable amounts of the assets of the CGU to determine which, if any, of the CGUs is impaired. As the asset of the head office can be allocated to each of the units, the carrying amounts of each of the CGUs must then include the allocated part of the head office.

Allocation of head office assets to CGUs

	Unit X GH¢m	Unit Y GH¢m	Unit Z GH¢m
Carrying value	500	700	1,000
Head office assets	<u>95</u>	<u>280</u>	<u>375</u>
	<u>595</u>	<u>980</u>	<u>1,375</u>

Calculation of impairment losses for CGUs

	Unit X GH¢m	Unit Y GH¢m	Unit Z GH¢m
Carrying value	595	980	1,375
Recoverable amount	<u>645</u>	<u>820</u>	<u>1,355</u>
Impairment loss	<u>0</u>	<u>160</u>	<u>20</u>

Because the assets of Unit X are not impaired, no write-down is necessary. For Units Y and Z, the impairment losses must be allocated to the assets of the units. The allocation is in proportion to the carrying amounts of the assets.

Allocation of impairment loss

	Unit Y GH¢m	Unit Z GH¢m
To head office	[160 x 280/980] 46	[20 x 375/1,375] 5
To other assets	[160 x 700/980] 114	[20 x 1,000/1,375] 15
	<u>160</u>	<u>20</u>

In relation to the research centre, the assets of the centre cannot be allocated to the units, so the impairment test is based on the smallest CGU that contains the research centre, which in this case is the entity as a whole, Sikaman Plc. For this calculation, the carrying amounts of the assets of the units as well as the head office are reduced by the impairment losses already allocated. The total assets of Sikaman Plc consist of all the assets of the entity

Impairment testing for Sikaman Plc as a whole and revised carrying values

	Carrying value GH¢m	Proportion	Allocation of loss GH¢m	Adjusted carrying value GH¢m
Unit X	500	$500/3,020 \times 100$	17	483
Unit Y (700 - 114)	586	$586/3,020 \times 100$	19	567
Unit Z (1,000 - 14)	986	$986/3,020 \times 100$	33	953
Head office (750 - 46 - 5)	699	$699/3,020 \times 100$	23	676
Research centre	<u>250</u>	$250/3,020 \times 100$	<u>8</u>	<u>242</u>
	<u>3,020</u>		<u>100</u>	<u>2,920</u>

Note: Allocation loss = $3,020 - 2,920 = 100$

Any 2 valid points for explanations = 2 marks
20 ticks @ 0.25 for computations = 5 marks
7 marks

c)

- To determine whether Odjani's performance obligation is to provide the specified goods or services itself (i.e. Odjani is a principal) or to arrange for those goods or services to be provided by another party (i.e. Odjani is an agent), the entity identifies the specified good or service to be provided to the customer and assesses whether it controls that good or service before the good or service is transferred to the customer.
- It can be concluded that, with each ticket that Odjani commits itself to purchase from the airline, Odjani obtains control of a right to fly on a specified flight (in the form of a ticket) that Odjani then transfers to one of its customers (see paragraph B35A(a) of IFRS 15).
- Consequently, it can be determined that the specified good or service to be provided to its customer is that right (to a seat on a specific flight) that Odjani controls.
- Odjani observes that no other goods or services are promised to the customer. Odjani controls the right to each flight before it transfers that specified right to one of its customers because Odjani has the ability to direct the use of that right by deciding whether to use the ticket to fulfil a contract with a customer and, if so, which contract it will fulfil.
- Odjani also has the ability to obtain the remaining benefits from that right by either reselling the ticket and obtaining all of the proceeds from the sale or, alternatively, using the ticket itself.
- Odjani has inventory risk with respect to the ticket because it committed itself to obtain the ticket from the airline before obtaining a contract with a customer to purchase the ticket. This is because Odjani is obliged to pay the airline for that right regardless of whether it is able to obtain a customer to resell the ticket to or whether it can obtain a favourable price for the ticket. Odjani also establishes the price that the customer will pay for the specified ticket.

Thus, Odjani is deemed to be a principal in the transactions with customers. The entity recognises revenue in the gross amount of consideration to which it is entitled in exchange for the tickets transferred to the customers.

Any 4 valid points for explanations = 4 marks

Conclusion = 1 marks

5 marks

(Total: 20 marks)

EXAMINER'S COMMENTS

This question on selected accounting standards (IFRS) was a difficult question for most candidates. The question required knowledge in share-based payments and calculation of impairments losses and revenue from contracts with customers. Most candidates lacked expertise in the calculation of impairments losses, allocation and impairment testing. Candidates understanding of the standards and their application to real situations were a bit weak and therefore found it difficult in solving questions. Performance was low and below expectation. It seems candidates were unfamiliar with these standards. Overall, question 2 was partly attempted and answered. Some candidates did not attempt this question at all. ICAG should emphasis revision on standards to enhance better appreciation by candidates.

QUESTION THREE

a) Related parties of Mongu are:

- Atta Martey (a key management personnel of Mongu's parent company)
- Ahenkro (a subsidiary company of Mongu)
- Banzy Plc (parent company of Mongu)

Relationships between a parent and its subsidiaries should be disclosed irrespective of whether there have been transactions between them. An entity should disclose the name of its parent and, if different, the ultimate controlling party.

If an entity has had related party transactions during the periods covered by the financial statements, it should disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including the terms and commitments necessary for users to understand the potential effect of the relationship on the financial statements.

In this case, the above disclosures required should be made separately for each of the following categories.

- Parent
- Subsidiaries
- Key management personnel of the entity or its parent

(5 marks)

b) **Computation of goodwill**

	L\$ million	Rate	GH¢ Million
Consideration transferred (GH¢39.1 million x 470)	18,377		
Non-controlling interests (L\$22,440 x 30%)	6,732		
	25,109		
Fair value of net assets at date of acquisition	(22,440)		
	2,669		
Impairment loss in 2023	(357)		
Goodwill at 31 December 2023	2,312	490	4.72

(5 marks)

Alternative:

	L\$ Million	Rate	GH¢ Million
Consideration transferred			39.1
Non-controlling interests [(L\$22,440 ÷ 470) x 30%]		470	14.32
			53.42
Fair value of net assets at date of acquisition (L\$22,440 ÷ 470)		470	(47.74)

			5.68
Conversion/translation loss (L\$490 - L\$470/L\$490) x 5.68)			<u>(0.23)</u>
			5.45
Impairment loss in 2023 (L\$357 ÷ 490)		490	<u>(0.73)</u>
			4.95
Goodwill at 31 December 2023			4.72

- c) There are several reasons for considering issues of ethics in a takeover bid. The moral beliefs that transcend in an organisation's code of ethics and its culture may not be sufficient because a takeover bid involves integrating two companies' ethics and compliance programs during the takeover process which is critical and begins well before the union of the companies. The directors of both Akilapa Ltd and Bongo Partners should take care to conduct diligent research into the ethics and compliance programs of both companies prior to signing the transaction agreement. Failure to perform such diligence can be lethal to the success of the transaction. *(1 mark)*

During the pre-takeover phase, Mr Mensah and Miss Benkro should note that joining two companies' ethics and compliance programs is about more than the bureaucratic process but also about culture. A company's ethics and compliance programs are deeply interwoven with company culture. Company culture is not something that shows up in the transaction paperwork or perhaps even in due diligence reports. Yet, the compatibility of the companies' cultures is a vital part of the takeover success. Thus, company characteristics that contribute to the make-up of a company's culture such as values, work ethic, business practices, leadership style and company mission, are all critical to the takeover process.

(1 marks)

Secondly, Mr Mensah and Miss Benkro and the other directors of Akilapa Ltd should beware that ethics and compliance issues, including cultural issues, need to be addressed as they arise. Ignoring ethics and compliance issues or placing them on the abeyance can endanger the success of the takeover bid. Consequently, incongruences in the Akilapa Ltd and Bongo Partners's ethics and compliance programs need to be managed and resolved prior to finalizing a transaction to maximize the likelihood of long-term success.

(1 mark)

Thirdly, ethical issues are relevant for takeover bid since integrating ethics and compliance programs successfully requires patience. Management of the Akilapa Ltd should be mindful of the fact that integration of two companies' cultures can be a slow process. However, the chances of a successful integration of two companies into one larger company, family and team are substantially increased when the right amount of time, effort and resources are allocated to the integration process. Another critical issue for the directors of Akilapa Ltd to remember

throughout the takeover bid process is that addressing ethical issues as they arise is necessary to avoid later pitfalls. (2 marks)

Finally, ethical issues are becoming more and more complex, and it is critical to have knowledge of the underlying structure of ethical reasoning. Since the accountant of the Akilapa Ltd is part of the takeover process, professional ethics is an inherent part of his profession hence the directors should consider ethical issues in the process. The professional accountants code of ethics and conduct requires its members to adhere to a set of fundamental principles in the course of their professional duty, such as confidentiality, objectivity, professional behaviour, integrity and professional competence and due care. The main aim of professional ethics is to serve as a moral guideline for professional accountants. By referring to the set of ethical guidelines, the accountant is able to decide on the most appropriate course of action, which will be in line with the professional body's stance on ethics. The presence of a code of ethics is a form of declaration by the professional body to the public that it is committed to ensuring the highest level of professionalism amongst its members. From the perspective of Miss Benkro, although the takeover will benefit the company, its executives or society, not considering ethical issues is deceptive, unethical, and hence unfair. It violates the relationship of trust, which the company has with society and the professional code of ethics. There is nothing but good reasons against the false disclosure of profits. (2 marks)

- The ethical issues confronted with Dr. Worlanyo is a self-interest threat because impairments appear to have arisen on an acquisition in which he was involved. The self-interest threat might compromise both his integrity and professional behavior. As a chartered accountant, Dr Worlanyo needs to ensure that he acts with integrity and demonstrate high standards of both professional behaviour and conduct. His judgement must not be influenced by the fact that his competence may be questioned if impairments arise on an investment decision with which he was involved. He must fulfil his professional responsibilities and ensure that the impairment review is properly performed. This might involve him explaining his earlier involvement in the corporate affairs of Bongo partners and perhaps passing the detailed review on to a colleague.

(3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The first part of the question was on related party disclosures. The performance of the first part was good. Most of the candidates identified the related parties but were not able to talk about the disclosures. The second part of the question required candidate to determine the goodwill involving a foreign subsidiary. Some candidates could not translate the foreign currency into the local currency. The third part of the question on ethics was generally well answered by most candidates. Some candidates however also showed lack of understanding and weak preparedness.

QUESTION FOUR

a)

i) **Asset Based Method**

Value of Business = Total Asset - Total Liability

Total Asset	GH¢	GH¢
<i>Property, Plant and Equipment</i>		
Portion for Residential use (GH¢975,000 -GH¢75,000)	900,000	
Present Value of Remaining PPE (GH¢300,000/0.25)	1,200,000	
		2,100,000
<i>Trademark</i>		
Projected After tax Profit	1500,000	
Amortisation (GH¢600,000/4)	(150,000)	
Adjusted After tax Profit	1,350,000	
Add back amortization	<u>150,000</u>	
Cash Flow	<u>1,500,000</u>	
Present Value of Cash Flow	$GH¢1,500,000 \frac{(1-(1+0.25)^{-4}}{0.25}$	3,542,400
<i>Investment Property</i>		600,000
<i>Inventories</i>		352,500
<i>Trade Recievables</i>		<u>450,000</u>
		<u>7,044,900</u>
Total Liabilities		
15% Debenture		270,000
Long term loans		975,000
Trade Payable		<u>480,000</u>
		<u>1,725,000</u>
Value of Business = GH¢7,044,900 - GH¢1,725,000		
= GH¢5,319,900		

Number of ordinary shares =
 $1,800,000 / 0.80 = 2,250,000$
 shares

Value on each Ordinary Share = $\frac{GH¢ 7,044,900}{2,250,000} = \mathbf{GH¢2.3644}$

(18 ticks @ 0.33 marks each = 6 marks)

ii) Earning Method - P/E Ratio

Value of Business = Earnings Per Share (EPS) × P/E Ratio

$$\text{Earning Per Share (E.P.S)} = \frac{\text{Earnings Attributable to Ordinary Shareholders}}{\text{Number of Ordinary Shares Outstanding}}$$

Earnings = GH¢630,000

$$\text{Earning Per Share (E.P.S)} = \frac{\text{GH¢630,000}}{2,250,000} = \text{GH¢0.28}$$

Share Price = GH¢ 0.28 × 11 = GH¢3.08

For lack of marketability discount by 25%

Share Price = GH¢3.08 × 0.75 = GH¢2.31

(6 ticks @ 0.5 marks each = 3 marks)

iii) Dividend Method - Dividend Yield Method

$$\text{Value of Ordinary Shares} = \frac{\text{Dividend Per Share}}{\text{Dividend Yield}}$$

Dividend Per Share = GH¢114,750/2,250,000 = GH¢0.051

$$\text{Value of Ordinary Shares} = \frac{\text{GH¢ 0.051}}{0.072} = \text{GH¢ 0.708}$$

For lack of marketability discount by 25%

Value of Ordinary shares = GH¢0.708*0.75 = GH¢0.531

(4 ticks @ 0.5 marks each = 2 marks)

iv) Dividend Method - Gordon's Growth Model

$$\text{Value of per ordinary shares} = \frac{D_0(1 + g)}{K_e - g}$$

$D_0 = (\text{GH¢114,750}/2,250,000) = \text{GH¢0.051}$

$\text{Growth (g)} = (114,750 - 112,500) / 114,750 \times 100 = 2\%$

$\text{Growth (g)} = 2\%$

$K_e = R_f + \beta(R_m - R_f)$

$K_e = 16\% + 1.5(23\% - 16\%)$

$K_e = 26.5\%$

$$\text{Value of per ordinary shares} = \frac{\text{GH¢0.051}(1 + 0.02)}{0.265 - 0.02} = \text{GH¢0.212}$$

(8 ticks @ 0.5 mark = 4 marks)

- b) Understanding the facts and circumstances, including those surrounding the original relationship between the parties prior to the business combination, is necessary to determine whether the reacquired right constitutes an identifiable intangible asset.

Some considerations include:

- The structure and accounting procedure used for the original relationship. Consider the intent of both parties at inception.
- Consider whether the original relationship was an outright sale with immediate revenue recognition. Was deferred revenue recorded as a result? Was an up-front, one-time payment made, or was the payment stream ongoing? Was the original relationship an arm's-length transaction, or was the original transaction set up to benefit a majority-owned subsidiary or joint venture entity with off market terms?
- Whether the original relationship was created through a capital transaction, or through an operating (executory) arrangement. Did it result in the ability or right to resell some tangible or intangible rights?
- Whether there has been any enhanced or incremental value to the acquirer since the original transaction
- Whether the reacquired right is exclusive or nonexclusive

(Any 4 points @ 1.25 marks each = 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question on business valuation was not answered well by almost all the candidates. Many candidates scored below the average mark. The poor performance could be due to inappropriate treatments of valuation adjustments. In the second part of the question, most candidates were not able to provide factors that should be considered in deciding on whether reacquired rights constitute an identifiable intangible asset.

The first part of the question assesses candidates' understanding of company valuation methods and their application in a merger scenario. The question covered multiple valuation methods (Net Assets, Constant Dividend, Dividend Growth, and the P/E ratio methods). The use of a merger scenario provides a practical context for applying valuation techniques. The question provides detailed financial statements and additional information, allowing for in-depth analysis.

A significant number of candidates struggled to accurately estimate the net asset value required for the asset-based valuation method. This suggests a lack of understanding of how to calculate net assets or identify the appropriate figures from financial statements. Many candidates demonstrated difficulty in estimating the appropriate earnings and dividend yields needed for the earnings and dividend-based valuation methods. This indicates a weakness in understanding how these yields are used in valuation models. Some candidates could not also compute the number of shares to be used for calculating price per share.

QUESTION FIVE

a) Horizontal Analysis

	Change in value (Trokaa)	Trokaa (%)	Change in value (Krokro)	Krokro (%)
Net profit after tax	-5,400	-61.36	3,600	25.35
Adjustment	-2,000	250	3,800	-
Net operating activities	-7,400	-92.5	7,400	52.1
Additions to tangible assets	-2,000	333.33	4,700	22.7
Sale of tangible assets	1,400	8.86	-1,300	-52.1
Net investing activities	-600	-3.95	-6,000	32.97
New bank borrowing	4,800	126.32	600	6.98
Payment of bank borrowings	-1,400	-6.48	5,000	-62.5
Payment of dividends	-	-	-600	33.3
Net cash from financing	6,200	34.83	5,000	416.67
Increase in cash	-1,800	-33.3	6,400	-123.1
Cash at start	5,400	675	-5,200	-32.5
Cash at end	3,600	58.06	1,200	11.11

(Marks are evenly spread = 6 marks)

b)

Report

To: Investment Manager, Nkoso Funds
 From: Financial Consultant, Nkoso Funds
 Date: xx/xx/xx

Subject: Relative cash flow analysis of Trokaa Plc and Krokro Plc

This report presents analysis of cash flow information of two companies: Trokaa Plc and Krokro Plc as part of a broad financial analysis carried out on these companies to decide which of them represents a better target to invest in. The analysis is undertaken under four different headings: cash flows from operating activities, cash flows from investing activities, cash flows from financing activities, and changes in cash and cash equivalents.

Cash flows from operating activities

From the cash flow statements, it is clear that both companies have remained profitable across the two years. However, while Trokaa Plc's net profit has declined by 61.36% $[(8800 - 3400) \times 100 / 8800]$ Krokro Plc's profit has increased by 25.35% $[(17800 - 14200) \times 100 / 14200]$. This implies, albeit loosely, that Krokro's profit figures are not only higher than those of Trokaa but also seem to be faring better over time.

The picture painted by the profit figures is same as what the net operating cash flows reveal. Both companies generated more cash than they spent on operations across both years. Trokaa's net cash generated from operating activities decreased very significantly whereas Krokro matched the improved profitability with increased operating cash flows between the two periods.

A closer look at the numbers suggests that Trokaa's poor cash management in 2023 did not result from only the reduced profitability but also from the increases in the negative adjustments. This most probably signifies a deterioration in net working capital management; more cash tied up in inventories and receivables. Another implication is that the poor current asset management has undone the impact of any addbacks of material non-cash expenses such as depreciation. In the case of Krokro, the nil adjustment indicates that 2022's positive and negative adjustments may have cancelled each out. But in 2023 the adjustments represented an addition to profit to increase the operating cash flows. This may suggest a better working capital management and/or a simple addback of non-cash expenses.

Krokro Plc also appears to have had more quality profit than Trokaa Plc. In both years, Krokro Plc's net operating cash flows exceeded the related net profits, indicating that the profit figures were not just an outcome of accounting gimmicks, but figures which are sufficiently backed by cash. On the contrary, Trokaa's profits were higher than the related net operating cash flows in both years. For instance, in 2023, with operating cash flows sharply dropping, Trokaa's profit was backed only 17.65% ($600 \times 100 / 3400$) by operating cash flows for that year.

Cash flows from investing activities

Cash flows from investing activities are basically concerned with the acquisition and disposal of non-current assets and related items.

The cash flow statements reveal that Trokaa Plc has experienced net cash inflows from investing activities while Krokro Plc has recorded net cash outflows. This clearly indicates that Trokaa Plc is selling off and sizing down on its operations while Krokro Plc is investing long-term and expanding its activities.

Though the asset sales have generated material figures for Trokaa Plc across the two years, this action could raise going concern issue for the company unless there are plans to re-invest the proceeds in different ventures. Thus, these cash flows suggest that there are doubts about Trokaa's future while Krokro Plc appears to be motivated by the good profit figures to be investing in new assets and creating even more positive outlook into the future.

The increased net investment activities by Krokro Plc however imply that free cash flows are negative in both years. The indication is that Krokro Plc did not fund the new acquisitions in both periods only with internally generated cash but also with funds from lenders as can be seen under financing activities. Conversely, Trokaa Plc's increased divestment activities created positive free cash flows in both years.

Cash flows from financing activities

Cash flows from financing activities are concerned with activities which result in changes in an entity's mix of equity and debt capital. These cash flows result from transactions between the entity on one hand and shareholders and lenders on the other.

Trokaa Plc reported net cash outflows from financing activities, albeit lower in 2023 than in 2022, across both years while Krokro Plc presented net cash outflows only in 2022. These figures show that Trokaa Plc spent the positive free cash flows (as discussed under investing) on capital holders while Krokro Plc rather had to raise additional monies (especially in 2023 when the net flows became positive) to finance its deficient free cash flows.

A closer look at the section breakdown shows that both entities obtained new funds from only lenders in both years. While at this point, it is apparently clear how the new borrowings by Krokro Plc were applied as discussed under investment activities, it is not for Trokaa Plc. However, the immediate next line shows that huge debt repayments were made by Trokaa Plc, compared to Krokro Plc. The proceeds from asset sales did not find their way into idle accounts or short-term investments for later use but were utilized to repay loans. This thus offers a confirmation that the company does not intend to invest in new projects or replace ones sold.

But then as a lot of repayments are occurring at Trokaa, its gearing position is expected to improve while future interest payments can be projected to fall. Krokro Plc's loan build-ups in both years would worsen its gearing ratio and cause future interest payments to rise. However, it seems this does not create much concern as its strong profitability and operating cash flows should be able to allay any fears that lenders might harbour.

A more worrying picture painted by the 2023 figures of Trokaa is how the company has used the new loan. Instead of investing the loan proceeds in new assets, it appears Trokaa has used a good chunk to augment the asset sales to redeem the existing debts. This situation can easily push the company into debt distress as falling profitability coupled with failure to find and invest in new viable projects may impair the firm's debt servicing capacity despite the improving gearing and lower future interest costs.

Only Krokro Plc paid dividends to shareholders in both years, with the 2023's payment being one-third higher. Krokro Plc's decisions to pay dividends and increase amount this year look very apt as the amounts in both years are sufficiently below the net cash generated from operating activities. The implication is that these payments can be sustained going forward. But the failure of Trokaa Plc to return anything to shareholders just adduces additional evidence of the apparent cash flow problems that its earlier numbers seem to be revealing.

Changes in cash and cash equivalents

Trokaa's net cash changes have remained positive across the two periods even though the net cash increase of GH¢3.6 million in 2023 falls below what occurred in 2022 by $33\frac{1}{3}\%$ $[(5400 - 3600) * 100/5400]$.

These positive changes have been driven by cash generated from net asset disposals and net operating cash inflows, with the larger contributor being the former. Net cash from financing activities has been negative in both periods. But the reduction in net cash increment appears to have occurred largely because of the significant dip in net cash from operations (from GH¢8 million to GH¢0.6 million). This drop, combined with the small decrease in net investing inflows, was too huge to be compensated for by the significant decrease in the net cash used on financing activities.

The fact that Trokaa's positive net cash changes are disproportionately dependent on proceeds from asset sales does not leave an all-that-good picture. In fact, without these inflows, the company would have net decreases in cash and cash equivalents. Meanwhile these flows are not sustainable as the firm cannot continue disposing of its assets to raise new funds. Else, it would be out of business.

It appears that Krokro's cash flows situation gives a more encouraging picture than Trokaa's. Krokro's net cash changes improved from being a net negative figure last year to becoming a positive one this year. This improvement in net cash changes translates into an increment of GH¢6.4 million (GH¢1.2 million + GH¢5.2 m) from 2022 to 2023.

This improved performance was due to the significant rise in the net cash generated from both operating and financing activities. These huge increases led to the improvement we see because they exceeded how much more cash was required for the additional cash investments in 2023. Krokro's turnaround appears even more impressive given that the firm generated much of the improvement from its own operating activities.

Overall, the cash flow data of the two companies suggest that not only has Krokro Plc been more profitable (in absolute terms, at least) across and over the two years but it has also handled and managed its cash flows better than Trokaa Plc. Krokro Plc has generated more cash from its own operations, is expanding its activities by buying new assets, is committed to sustainable dividend payments and is leveraging its strong potential to use a cheaper source of finance – debts – to fund its investments. I therefore recommend that we consider Krokro Plc for the share investment.

Introduction = 1 mark

Any 6 valid points @ 2 marks each = 12 marks

Conclusion = 1 mark

14 marks

(Total: 20 marks)

EXAMINER'S COMMENTS

This question on horizontal analysis of the financial statements was of the appropriate standard. Some candidates could not calculate the absolute changes as well as the percentage changes. The interpretation of the horizontal changes also posed a challenge for most candidates. The report required specific discussion of certain issues but candidates were unable to discuss these issues.

CONCLUSION

As indicated earlier, overall, candidates performed better than previous diet. The results provide 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 sit the paper without the aim of passing but because he/she must register for all subjects. So, they prepare for other subject(s) they have interest in. This ultimately has implication for the overall pass rate for the corporate reporting exams.