MARCH 2024 PROFESSIONAL EXAMINATIONS
FINANCIAL REPORTING (PAPER 2.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

STANDARD OF THE PAPER

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

Generally stated, a candidate who prepared well in accordance with the dictates of the syllabus, should be able to pass the examination.

PERFORMANCE OF CANDIDATES

On the whole, performance of candidates was satisfactory. The pass rate was about 34%. It appears the few high performers were concentrated at some centres. While some script packs could record about 50% pass rate, others could hardly register 20% pass rate.

There was no sign of copying and no other examination malpractice was detected.

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 apply the respective IFRS in the preparation of financial statements.

QUESTION ONE

On 1 July 2022 Chicha Plc acquired 80% of the ordinary shares of Wale Plc at a cost of GH¢2,570,000. On the same date it also acquired 50% of Wale Plc's 10% loan notes at par. The summarised draft financial statements of both companies are:

Statements of Profit or Loss for the year ended 31 March 2023

	Chicha Plc	*Wale Plc*
	GH¢'000	**GH¢'000**
Sales revenue	15,000	6,000
Cost of sales	(10,500)	(5,000)
Gross profit	**4,500**	**1,000**
Operating expenses	(1,500)	(50)
Loan interest received/(paid)	18.75	(50)
Profit before tax	**3,018.75**	**900**
Income tax expense	(750)	(150)
Profit for the year	**2,268.75**	**750**

Statements of Financial Position as at 31 March 2023

	Chicha Plc	*Wale Plc*
	GH¢'000	**GH¢'000**
Non-current assets		
Property, plant and equipment	4,830	2,000
Investments	2,820	-
	7,650	2,000
Current assets	3,750	2,000
Total assets	**11,400**	**4,000**
Equity and liabilities		
Equity		
Stated capital	2,500	500
Retained earnings	6,400	2,100
	8,900	2,600
Non-current liabilities		
10% loan notes	-	500
Current liabilities	2,500	900
Total equity and liabilities	**11400**	**4,000**

The following information is relevant:

i) The fair values of Wale Plc's assets were equal to their book values with the exception of its plant, which had a fair value of GH¢800,000 in excess of its book value at the date of acquisition. The remaining life of all of Wale Plc's plant at the date of its acquisition was four years and this period has not changed as a result of the acquisition. Depreciation of plant is on a straight-line basis and charged to cost of sales. Wale Plc has not adjusted the value of its plant as a result of the fair valuation of the assets.

ii) In the post-acquisition period Chicha Plc sold goods to Wale Plc at a total value of GH¢3,000,000. These goods had cost Chicha Plc GH¢2,250,000. During the year Wale Plc had sold GH¢2,500,000 out of the GH¢3,000,000 goods from Chicha Plc for GH¢3,750,000.

iii) The current accounts of the two companies were reconciled at the year-end with Wale Plc owing Chicha Plc GH¢187,500.

iv) The goodwill was reviewed for impairment at the end of the reporting period and had suffered an impairment loss of GH¢75,000, which is to be treated as an operating expense.

v) Chicha Plc's and Wale Plc's retained earnings as at 1 April 2022 were GH¢4,131,250 and GH¢1,350,000 respectively. No dividends were paid or declared by either entity during the year.

vi) It is the group policy to value the non-controlling interest at acquisition at fair value. The directors valued the non-controlling interest at GH¢625,000 at the date of acquisition.

vii) Revenues and profits should be deemed to accrue evenly throughout the year.

Required:
Prepare for Chicha Plc a Consolidated Statement of Profit or Loss for the year ended 31 March 2023 and Statement of Financial Position as at 31 March 2023.

(Total: 20 marks)

QUESTION TWO

a) Kombra Ltd (Kombra) is a market leader in the printing and publishing industry. To benefit from a potential future decline in interest rates, Kombra invests in bonds and issues callable bonds. It occasionally trades these bonds by immediately flipping them for a profit. Others are held for the long term.

Kombra purchased two bonds on 1 January 2023. Details of the two particular bonds are as follows:

	Sikapa bond	**Cocoa bond**
Nominal value of bond	GH¢47.25 million	GH¢31.5 million
Coupon rate	4%	5%
Purchase price of bond	GH¢40.425 million	GH¢29.4 million
Effective yield to maturity	6.75%	7.8%

The Sikapa bond was bought with the intention of keeping it for a long time and withdrawing the interest and principal as they fall due.

The Cocoa bond was bought at a deep discount, and the aim is to wait until the market value increases, and then sell it at a profit. The Cocoa bond had a fair value of GH¢28.875 million as of December 31, 2023.

In both situations, the coupon, which is due on December 31 each year, has been paid as agreed.

Required:
In the case of each bond above, show the financial reporting treatment required by ***IFRS 9: Financial Instruments*** for the year ended 31 December 2023. Show all workings clearly. **(9 marks)**

b) ***IFRS 8: Operating Segments*** requires particular classes of entities (essentially those with publicly traded securities) to disclose information about their operating segments. Information is based on internal management reports, both in the identification of operating segments and measurement of disclosed segment information. It applies to the separate or individual financial statements of an entity and to the consolidated financial statements of a group.

Required:
Distinguish between ***operating segments*** and ***reportable segments***. **(4 marks)**

c) Mankeni Ltd (Mankeni) is one of Africa's leading entertainment companies which creates and secures the rights to phenomenal content from all over the world. Mankeni has entered into the following transactions during the financial year ended 30 November 2023:

i) On December 1, 2022, Mankeni purchased the sole West African distribution rights for a special digital set-top box for home entertainment. The rights were purchased for GH¢5.25 million over a three-year period. **(3 marks)**

ii) Mankeni started working on building the brand and increasing sales of the item mentioned in (i) above on December 1, 2022. Due to the enormous success of this endeavour, the "Mankeni" brand became popular. Mankeni wishes to include the brand in its financial statements for year ended 30 November 2023 at its estimated fair value of GH¢30 million. **(2 marks)**

iii) Mankeni wishes to replicate its West African success in Eastern African countries by selling the product in other markets. The company has spent GH¢1.25 million during the year researching the Eritrea market and wishes to capitalise this expenditure as an intangible asset. **(2 marks)**

Required:
In each of the scenarios (i) to (iii) above, recommend the appropriate accounting treatment for the year ended 30 November 2023 in accordance with ***IAS 38: Intangible Assets***.

QUESTION THREE

The following figures have been extracted from the accounting records of Skolom Ltd on 31 December 2022:

		GH¢'000	**GH¢'000**
Revenue	i)		711,936
Cost of sales	i)	403,200	
Joint venture account	ii)	8,640	
Operating expenses		100,800	
Loan interest paid		12,960	
Investment income			5,040
Investment property at valuation	iii)	72,000	
25-year leasehold factory at cost	iii)	360,000	
15-year leasehold factory at cost	iii)	216,000	
Plant and equipment at cost	iii)	358,560	
Depreciation 1 January 2022			
- 25-year leasehold factory			72,000
- 15-year leasehold factory			72,000
- Plant and equipment			142,560
Accounts receivables		120,240	
Inventory – 31 December 2022		54,000	
Cash and bank		3,600	
Accounts payables			67,824
Deferred tax – 1 January 2022	iv)		15,120
Ordinary shares of no par value @ 25Gp each			288,000
10% Redeemable (in 2028 at par) Preference shares of GH¢1 each			72,000
12% Loan note (issued in 2018)			216,000
Retained earnings – 1 January 2022			58,320
Interim dividends	v)	10,800	-
		1,720,800	**1,720,800**

The following notes are relevant:

i) On 1 April 2022, Skolom Ltd agreed to act as a selling agent for an overseas company, Keke Ltd. The terms of the agency are that Skolom Ltd receives a commission of 10% on all sales made on behalf of Keke Ltd. This is achieved by Skolom Ltd remitting 90% of the cash received from Keke Ltd's customers one month after Skolom Ltd has collected it. Skolom Ltd has included in its revenue GH¢51.84 million of sales on behalf of Keke Ltd of which there is one month outstanding balances of GH¢8.64 million included in Skolom Ltd's accounts receivable. The cash remitted to Keke Ltd during the year of GH¢38.88 million (i.e. 90% of GH¢43.2 million) in accordance with the terms of the agency, has been treated as the cost of the agency sales.

ii) The joint venture account represents the net balance of Skolom Ltd's transactions in a joint venture with Baba Ltd which commenced on 1 January 2022. Each venturer contributes their own assets and pays their own expenses. The revenues for the venture are shared equally. The joint venture is not a separate entity. Details of Skolom Ltd's joint venture transactions are:

	GH¢'000
Plant and equipment at cost	10,800
Share of joint venture sales revenues (50% of total sales revenue)	(5,760)

Related cost of sales excluding depreciation	2,880
Accounts receivable	1,440
Accounts payable	(720)
Net balance of joint venture account	8,640

Plant and equipment should be depreciated in accordance with the company's policy in note (iii).

iii) On 1 January 2022, Skolom Ltd had its two leasehold factories revalued (for the first time) by an independent valuer as follows:

25-year leasehold	GH¢374.40 million
15-year leasehold	GH¢129.60 million

Skolom Ltd depreciates its leaseholds on a straight-line basis over the life of the lease. The directors of Skolom Ltd are disappointed in the value placed on the 15-year leasehold factory.
The valuer has said that the fall in its value is due mainly to its unfavourable location, but the valuer expects its value to increase in time. The Directors are committed to incorporating the revalued amount of the 25-year leasehold into the financial statements but wish to retain the historic cost basis for the 15-year leasehold. Revaluation surpluses are transferred to accumulated realised profits in line with the realisation of the related assets.

Skolom Ltd had adopted fair value method of accounting for investment properties in accordance with ***IAS 40: Investment Property***. The value of investment property had increased by a further GH¢3.6 million in the year to 31 December 2022.

Plant and equipment is depreciated at 20% per annum on the reducing balance basis.

iv) A provision for income tax for the year to 31 December 2022 of GH¢36 million is required. Temporary differences (related to the difference between the tax base of the plant and its carrying amount) on 1 January 2022 were GH¢50.40 million and on 31 December 2022 they had declined to GH¢36 million. Assume a tax rate of 25%.

v) The directors of Skolom Ltd wish to provide for interim dividend of GH¢0.03 on ordinary shares for the year ending 31 December 2022.

Required:
Prepare for Skolom Ltd in accordance with International Financial Reporting Standards (IFRSs):

a) Statement of Comprehensive Income for the year ended 31 December 2022
b) Statement of Financial Position as at 31 December 2022.

(Total: 20 marks)

QUESTION FOUR

The following information have been extracted from the Financial Statements of Mantemante Ltd.

Statement of Financial Position as at 31 December 2023

	2023	2022
Non-Current Assets	**GH¢'000**	**GH¢'000**
Property Plant & Equipment	6,000	5,250
Intangibles	3,250	1,900
	9,250	7,150
Current Assets		
Inventories	3,200	2,450
Trade Receivables	6,550	6,000
	9,750	8,450
Total Assets	**19,000**	**15,600**
Equity & Liabilities		
Equity shares of GH¢1 each	4,000	4,000
Retained Earnings	2,750	1,925
Revaluation Reserves	3,475	2,450
	10,225	8,375
Non-Current Liabilities		
10% Loan Notes	4,000	3,000
Current Liabilities		
Bank Overdraft	550	400
Trade Payables	4,075	3,550
Current Tax Payable	150	275
	4,775	4,225
Total Equity & Liabilities	**19,000**	**15,600**

Additional Information:

i) Extract from Statement of Profit or Loss for the year ended 31 December 2023

	2023	2022
	GH¢'000	**GH¢'000**
Revenue	56,000	48,750
Cost of Sales	42,300	34,125
Net Profit after tax	2,325	1,600

ii) The Profit after tax was arrived at after charging the following costs:

	2023	2022
	GH¢'000	**GH¢'000**
Depreciation	1,800	1,400
Interest on 10% Loan notes	400	300
Interest on Bank Overdraft	60	50
Other Administrative Expenses	50	50

iii) The following ratios are the averages pertaining to Mantemante's industry:

Return on Capital Employed	17.6%
Net Profit Margin	3.95%
Asset Turnover	3.26%
Current Ratio	1.84:1
Acid Test Ratio	1.15:1
Gross Profit Margin	33.42%
Receivables Collection Period	48 Days
Payables Payment Period	42 Days
Inventories Turnover	16.70
Gearing	34.21%

Required:

a) Compute the comparable ratios for Mantemante Ltd for the years 2022 and 2023. **(10 marks)**

b) Write a report for consideration by the Board of Directors, analysing the performance of Mantemante with references to the ratios for the two years and the industry averages. **(10 marks)**

(Total: 20 marks)

QUESTION FIVE

a) Esther is a Chartered Accountant who works in a team that reports to Ameka, the Finance Director of Novak Ltd. Ameka is also a Chartered Accountant. He has a domineering personality. Novak Ltd revalues commercial properties in line with ***IAS 16: Property, Plant and Equipment***. Valuation information received last year showed that the fair value of the property portfolio was 2% less than the carrying amount of the properties (with no single property being more than 4% difference). A downward revaluation was not recognised on the grounds that the carrying amount was not materially different from the fair value.

This year's valuation shows a continued decline in the fair value of the property portfolio. It is now 5% less than the carrying amount of the properties with some properties now being 15% below the carrying amount. Esther submitted workings to Ameka in which she had recognised the downward revaluations in accordance with IAS 16. Ameka has sent Esther an email in response in which he wrote: *"Stop bothering me with this rubbish. There is no need to write the properties down. The fair value of the portfolio is only 5% different from its carrying amount. Restate the numbers immediately"*.

Required:

Advise Esther on the appropriate actions to take. **(5 marks)**

b) Discuss **FIVE (5)** reasons for the need of a conceptual framework in the standard setting process. **(5 marks)**

c) According to ***IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors,*** when an IFRS specifically applies to a transaction, other event or condition, the accounting policy applied to that item shall be determined by applying the IFRS. In the absence of an IFRS that specifically applies to a transaction, other event or condition, Management shall use its judgement in developing and applying an accounting policy that results in information that has certain qualities.

Required:
Identify the qualities that must be present in the resultant information when Management of an entity use its judgement in developing and applying an accounting policy. **(5 marks)**

d) ***Significant influence*** is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Required:
Outline **FIVE (5)** factors/conditions that indicate significant influence (other than shareholding). **(5 marks)**

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

Chicha Plc
Consolidated Statement of Profit or Loss for the Year Ended 31 March 2023

	GH¢'000
Sales revenues (15,000 + (9/12 x 6,000) – 3,000 (W3))	16,500
Cost of sales (10,500 + (9/12 x 5,000) – 3,000 + 125 (W3) + 150 (W2))	(11,525)
Gross profit	**4,975**
Operating expenses (1,500 + (50 × 9/12) + 75 (W1))	(1,612.5)
Finance costs (50 x 9/12 less 18.75 income)	(18.75)
Profit before tax	**3,343.75**
Income tax expense (750 + (150 x9/12))	(862.5)
Profit for the year	**2481.25**
Profit attributable to:	
Owners of the parent	2,413.75
Non-controlling interest ((750 × 9/12) – 150 (W4)) x 20% – 15(W1)	67.5
	2481.25

Chicha Plc
Consolidated Statement of Financial Position as at 31 March 2023

	GH¢'000
Assets	
Non-current assets	
PPE (4,830 + 2,000 + 650 fair valuation (W4))	7,480
Goodwill (W1)	282.5
	7,762.5
Current assets (3,750+2,000 – 125 unrealised profit (W3) – 187.5 intragroup)	5,437.5
Total assets	**13,200**
Equity and liabilities	
Equity attributable to owners of the parent	
Share capital (Parent only)	2,500
Retained earnings (W2)	6,545
	9,045
Non-controlling interest (W5)	692.5
	9,737.5
Non-current liabilities (0 + 500 – 250 loan notes)	250
Current liabilities (2,500 + 900 – 187.5 intragroup)	3,212.5
Total equity and liabilities	**13,200**

Workings

1. **Group structure**

Chicha	80%
NCI	20%

2. **Net Assets of Wale**

	At acq date GH¢'000	At reporting date GH¢'000
Share capital	500	500
Retained Earnings	1,537.5	2,100
Fair value increase for the plant	800	800
Additional dep on fair valued asset [3,200/4 x9/12]	-	(150)
	2,837.5	**3,250**
Post acq retained earnings (3,250 – 2,837.5)		**412.5**

3. **Goodwill in Wale Plc**

	GH¢'000
Consideration transferred	2,570
Non-controlling interests (at 'full' fair value)	625
	3,195
Fair value of net assets at acquisition	(2,837.5)
Goodwill	**357.5**
Impairment losses	(75)
	282.5

4. ***Intra group trade and the provision for unrealised profit***

a) Group revenues and cost of sales are reduced by the GH¢3m of intra-group sales at invoiced value. This adjustment does not affect profits.

DR	Sales Revenue	GH¢3m	
CR	Cost of Sales		GH¢3m

b) An adjustment is made for the unrealised profit on goods sold by Chicha Plc to Wale Plc but still unsold at the year-end. This increases the cost of sales in the statement of profit or loss and reduces the value of the inventories in the statement of financial position. The gross profit margin was 25% (GH¢.75m/GH¢3m).

Goods unsold at the year-end; GH¢3m – GH¢2.5m = GH¢0.5m
Unrealised profit: GH¢0.5m x 25% = GH¢125,000

DR	Cost of Sales	GH¢125,000	
CR	Inventory [Current assets]		GH¢125,000

c) Fair valued plant
Fair value uplift at acquisition GH¢0.8m
Depreciation over four years for nine months; GH¢0.8m x ¼ x 9/12 = GH¢150,000

The extra GH¢150,000 depreciation is taken into account when apportioning the profit for the year between the parent and the non-controlling interest.

5. ***Non-controlling interests at reporting date***

	GH¢'000
NCI at acquisition (W1)	625
NCI share of post-acquisition retained earnings:	
((W2) 412.5 × 20%)	82.5
NCI share of impairment losses (75 × 20%)	(15)
	692.5

(Marks are evenly spread using ticks = 20 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question required candidates to prepare consolidated statement of profit or loss and other comprehensive income and consolidated financial position (involving a Parent and a Subsidiary). This was a standard question that required the basic calculations such as goodwill, intra-group adjustments, non-controlling interest and consolidated retained earnings.

Many candidates answered the question well and earned pass marks

QUESTION TWO

a) **Sikapa**

As the bond was purchased with a view to holding it for the long term, the business model test is met. As the bond's cash flows consist solely of interest and principal payments, the cash flow test is met. Hence, this bond should be accounted for using the amortised cost method. The bond is recorded at its cost, plus any costs to purchase (not relevant here).

	GH¢ million	GH¢ million
Dr Financial assets	40.425	
Cr Cash		40.425

Subsequently, the effective yield to maturity should be used to amortise the bond over the year. This is applied to the opening balance to determine the finance cost (6.75% * 40.425m = 2.7286 million or GH¢2.7 million)

	GH¢ million	GH¢ million
Dr Financial assets	2.7	
Cr Profit or loss (finance income)		2.7

Finally, the interest payment was paid at 31 December 2023 as promised. This should be 4% of the par value GH¢47.25 million, or GH¢1.89 million. This is treated as a reduction to the financial asset.

	GH¢ million	GH¢ million
Dr Cash	1.89	
Cr Financial assets		1.89

Cocoa Bond

As this bond was purchased with a view to sell it at a profit, the business model test fails. Hence, amortised cost cannot be used to measure the bond. It must be remeasured to fair value at the reporting date.

The bond is recorded at cost, but any costs of purchase would be expensed in this scenario.

	GH¢ million	GH¢ million
Dr Financial asset	29.4	
Cr Cash		29.4

At 31 December 2023, the scheduled interest is paid, at 5% of par value GH¢31.5 million, or GH¢1.575 million. This is taken to finance income.

	GH¢ million	GH¢ million
Dr Cash	1.575	
Cr Finance Income		1.575

Finally, at the reporting date, the bond is remeasured to fair value, GH¢28.875 million. This shows a loss of GH¢0.525 million which should be taken to profit or loss.

	GH¢ million	GH¢ million
Dr Profit or loss (finance costs)	0.525	
Cr Financial Assets		0.525

(Marks are evenly spread using ticks = 9 marks)

b) **Operating segments**

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity: [IFRS 8.2]

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity)

- whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available

(2 marks)

Reportable segments

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria: [IFRS 8.13]

- its reported revenue, from both external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments, or

- the absolute measure of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss, or its assets are 10 per cent or more of the combined assets of all operating segments.

(2 marks)

c)

i) This is an intangible asset, acquired as a separate asset for cash consideration. This should be capitalised at cost, GH¢5.25 million. The asset should be amortised over its useful economic life, in this case 3 years.
Amortisation to be charged in the year ended 30 November 2023 is GH¢1.75 million.

	GH¢ million	GH¢ million
On initial recognition		
Dr Intangible asset	5.25	
Cr Cash		5.25
At the end of each year		
Dr Profit or loss	1.75	
Cr Accumulated amortisation – intangible asset		1.75

(3 marks)

ii) The Mankeni Ltd brand falls into the category of an internally generated intangible asset. Under IAS 38, internally generated assets cannot be recognised unless they can be valued by reference to an active market in identical assets. Clearly every brand is unique, so there cannot, by definition, be an active market in identical assets. Similar, maybe, but identical, no.

The other exception to the non-recognition rule is the instance of development costs. The development of a brand does not meet the criteria for capitalising development costs. Hence, the costs of developing the brand must be expensed, and the fair value of the brand may not be recognised under IAS 38.

(2 marks)

iii) This expenditure falls into the category of market research. IAS 38 specifically precludes the capitalisation of market research. Hence the GH¢1.25 million must be expensed as incurred. **(2 marks)**

(Total: 20 marks)

EXAMINER'S COMMENTS

The question required candidates to demonstrate knowledge of contents and application of IFRS 9, IFRS 8 and IAS 38. It was a straight forward question but regrettably, many candidates could not provide the right responses.

For the a) part, candidates were required to demonstrate the application of the principles guiding recognition and subsequent measurement of financial assets at amortised cost and financial assets fair value through OCI.

QUESTION THREE

Skolom Ltd

a) **Statement of Comprehensive Income for the Year Ended 31 December 2022**

	GH¢'000
Sales revenue (W1)	665,856
Cost of sales (W2)	(444,240)
Gross profit	**221,616**
Operating expenses	(100,800)
Operating profit	**120,816**
Agency commission (W1)	5,184
Investment income - Surplus on investment property	3,600
Other investment income	5,040
Loss on revaluation of 15-year leasehold (W5)	(10,800)
Finance costs (W10)	(33,120)
Profit before tax	**90,720**
Income tax expense (W8)	(32,400)
Profit for the year	**58,320**
Other comprehensive income:	
Gain on revaluation of property (net of tax) (W5)	64,800
Total comprehensive income for the year	**123,120**

b) **Statement of Financial Position as at 31 December 2022**

ASSET		**GH¢'000**
Non-current assets		
Property, plant and equipment (W6)		653,760
Investment property (W7)		75,600
		729,360
Current assets		
Inventory	54,000	
Accounts receivable (W11)	113,904	
Cash and bank	3,600	
		171,504
Total Assets		**900,864**
EQUITY AND LIABILITIES		
Equity:		
Ordinary shares of no par value @ 25Gp each		288,000
Revaluation reserve		60,480
Retained earnings		79,200
Total equity		427,680
Non-current liability:		
10% Redeemable (in 2028) Pref. shares of GH¢1 each	72,000	
12% Loan notes (issued 2018)	216,000	
Deferred tax (W9)	29,520	317,520

Current liabilities:		
Accounts payable (W12)	68,544	
Income tax payable	36,000	
Accrued interests (W13)	16,560	
Ordinary dividend payable (W10)	34,560	155,664
Total equity and liabilities		**900,864**

WORKINGS (in GH¢'000)

1. **Revenue**

Per trial balance	711,936
Sales on behalf of Keke Ltd (see below)	(51,840)
Share of Joint venture revenue (W3)	5,760
	665,856

The company's treatment of the transactions in relation to the agreement with Keke Ltd is incorrect. Skolom Ltd has treated the sales and expenses as if they were its own sales rather than acting as an agent and receiving commission.

The entries required to correct the error are:

	DR	**CR**
Revenue	51,840	
Cost of sales		38,880
Accounts receivable		8,640
Commission receivable (10% x 51,840)		5,184
Due from Keke Ltd (Accounts receivable)	864	-
	52,704	**52,704**

2. **Cost of sales**

Per trial balance	403,200
Keke Ltd adjustment - see above	(38,880)
Depreciation on leasehold factories (W4)	31,680
Depreciation of plant and equipment (W4)	45,360
Joint venture related cost of sales (W3)	2,880
	444,240

3. **Joint venture with Baba Ltd**

The joint venture with Baba Ltd qualifies to be treated under IFRS 11 Joint Arrangements as a jointly controlled operation. The Standard requires that each venturer should account for its own assets, liabilities and results according to the terms of the agreement. Thus Skolom Ltd's transactions with the joint venture will be treated as if they were Skolom Ltd's own transactions and would be included in the appropriate line items together with other similar transactions e.g. sales revenue will include GH¢5.76 million in respect of the joint venture likewise cost of sales will include GH¢2.88 million in respect of the venture.

4. Depreciation expense

25-year leasehold factory (374,400/20)	18,720	
15-year leasehold factory (129,600/10)	12,960	31,680
Plant & equipment (358,560+10,800-142,560)20%		45,360

Remaining life on leasehold factories

	Depreciation p.a.	Accum. Dep'n.	Years used	Years left
25-year leasehold (360,000/25)	14,400	72,000	5	20
15-year leasehold (216,000/15)	14,400	72,000	5	10

5. Leasehold factories

Where a company chooses to revalue a non-current asset, it must revalue all the assets of the same class. Thus, in this case, Skolom Ltd must recognise the fall in the value of the 15-year leasehold factory.

Revaluation surplus/deficit

25-year leasehold

Carrying amount (360,000 - 72,000)	288,000
Valuation amount	374,400
Revaluation gain	86,400
Deferred tax at 25% (liability)	(21,600)
Net gain on revaluation	**64,800**

15-year leasehold

Carrying amount (216,000 - 72,000)	144,000
Valuation amount	129,600
Revaluation loss/deficit	(14,400)
Deferred tax at 25% (asset)	3,600
Net loss on revaluation	**(10,800)**

The revaluation loss must be charged to profit or loss; it cannot be offset against the surplus on the 25-year leasehold. A transfer from the revaluation reserve to retained earnings must be made. This will represent the partial realisation of the surplus on the 25-year leasehold. It is realised at GH¢4.32 million (GH¢86.4 million/20 years) per annum in line with the remaining life of the leasehold.

6. **Property, plant and equipment Schedule**

COST/VALUATION:	25-year leasehold GH¢'000	15-year leasehold GH¢'000	Plant & Equipment GH¢'000	Total GH¢'000
At 1 Jan 2022	360,000	216,000	358,560	934,560
Revaluation gain/(loss)	86,400	(14,400)	-	72,000
Additions	-	-	10,800	10,800
At 31 Dec 2022	**446,400**	**201,600**	**369,360**	**1,017,360**
ACCUMULATED DEP'N:				
At 1 Jan 2022	72,000	72,000	142,560	286,560
Charge for the year	18,720	12,960	45,360	77,040
At 31 Dec 2022	**90,720**	**84,960**	**187,920**	**363,600**
CARRYING AMOUNT:				
At 31 Dec 2022	**355,680**	**116,640**	**181,440**	**653,760**
At 31 Dec 2021	**288,000**	**144,000**	**216,000**	**648,000**

7. **Investment property**

Under *IAS 40 Investment property* movements in the fair value of investment property must be taken to profit or loss. Also, on the first adoption of the Standard any previous surplus on an investment property revaluation reserve is transferred to realized profits. The value of the investment property at year end stands at GH¢75.6 million (72m + 3.6m).

8. **Income tax expense**

Estimated provision for the year	36,000
Deferred tax adjustment (W9)	(3,600)
	32,400

9. **Deferred tax**

Balance at 1 January 2022	15,120
Adjustment in P/L (36,000 - 50,400) x 25%	(3,600)
Adjustment in OCI - DT liability	21,600
Adjustment in OCI - DT asset	(3,600)
Balance at 31 December 2022	**29,520**

10. **Finance costs**

Loan interest paid per trial balance	12,960	
Accrued loan interest (12% x 216,000 - 16,200)	12,960	
Loan interest expense (12% x 216,000)		25,920
Interim dividends paid (10% x 72,000 x 6/12)	3,600	
Accrued dividend on Pref shares	3,600	
Total interest on preference shares		7,200
		33,120

The interim dividends are half of the preference dividend of GH¢3.6 million (10% x 72 million x 6/12) and the balance must be an interim ordinary dividend of GH¢7.2 million (10.8 million - 3.6 million). The final proposed dividend is another GH¢3.6 million preference dividend and GH¢34.56 million (288 million x 4 x 3Gp) ordinary dividend. Total ordinary dividend is **GH¢41.76 million** (7.2m + 34.56m). Under *IAS 32 Financial Instruments: Presentation*, redeemable preference shares have the characteristics of debt and must be treated as such. The preference dividends will be treated as finance costs and the shares will appear under non-current liabilities, not equity.

11. Accounts receivable

Per trial balance	120,240
Joint venture receivable	1,440
Outstanding receivable on c'ssion sales (W1)	(8,640)
Due from Keke Ltd (W1)	864
	113,904

12. Accounts payable

Per trial balance	67,824
Joint venture creditor	720
	68,544

13. Accrued interests

Accrued loan interest	12,960
Accrued dividend on preference shares	3,600
	16,560

(80 ticks @ 0.25 = 20 marks)

EXAMINER'S COMMENTS

The question required candidates to prepare statement of profit or loss and other comprehensive income and statement of financial position. It was a standard question, but almost all the candidates could not interpret note 1 and note 2. Unfortunately, no candidate could earn a pass mark of 10 marks.

QUESTION FOUR

a) **Computation of Ratios**

S/N	Ratio	2023	2022	Industry
1	Current Ratio = Current Assets/Current Liabilities	9,750/4,775	8,450/4,225	
		2.04:1	**2.00:1**	**1.94:1**
2	Return on Capital Employed = PBIT/Capital Employed*100	(2,325+400)/(19,000-4,775)*100	(1,600+300)/15,600-4,225)*100	
		19.16%	**16.70%**	**17.60%**
3	Net Profit Margin = Profit/Revenue*100	2,325/56,000*100	1,600/48,750*100	
		4.04%	**3.28%**	**3.95%**
4	Total Asset Turnover = Revenue/Total Assets	56,000/19,000	48,750/15,600	
		2.95:1	**3.13:1**	**3.26:1**
5	Acid Test Ratio = (Current Assets-Inventories)/Current Liabilities	(9,750-3,200)/4,775	(8,450-2,450)/4,225	
		1.37:1	**1.42:1**	**1.15:1**
6	Gross Profit Margin = Gross Profit/Revenue	(56,000-42,300)/56,000*100	(48,750-34,125)/48,750*100	
		24.46%	**30.00%**	**33.42%**
7	Receivables Collection Period = Receivables/Revenue*365	6,550/56,000*365	6,000/48,750*365	
		43 Days	**45 Days**	**48 Days**
8	Payables Payment Period = Payables/Cost of Sales*365	4,075/42,300*365	3,550/34,125*365	
		35 Days	**40 Days**	**42 Days**
9	Inventories Turnover = Cost of Sales/Inventories	42,300/3,200	34,125/2,450	
		13.2 Times	**13.93 Times**	**16.7 Times**
10	Gearing = Non-Current Liab./Total Assets-Current Liab.*100	4,000/(19,000-4,775)*100	3,000/(15,600-4,225)*100	
		28.12%	**26.37%**	**34.21%**

(1 mark for each ratio = 10 Marks)

b) **Report to the Board of Directors**
To: Board of Directors
From: Management Accountant
Subject: Analysis of performance of Mantemnate Ltd.

Introduction
This report provides an analysis of the performance of Mantemnate Ltd for the year ended 31 December 2023 relative to the 2022 and the Industry benchmarks. The report should be read in conjunction with the appendix attached which shows the relevant ratios for the respective periods and the industry benchmarks.

(0.5 marks)

Trading and profitability
Return on capital employed has improved noticeably between the years and is also now marginally ahead of the industry average.

Net income as a proportion of sales has also improved noticeably between the years and is also now marginally ahead of the industry average. Gross profit margin, however, is considerably lower than in the previous year and is only some 73% of the industry average. This suggests either that there has been a change in the cost structure of Mantemnate Ltd or that there has been a change in the method of cost allocation between the periods. Either way, this is a marked change that requires investigation. The company may be in period of transition as sales have increased by nearly 15% over the year and it may appear that new non-current asset have been purchased.

Asset turnover has declined between the period although the 2022 figure is close to the industry average. This reduction might indicate that the efficiency with which assets are used has deteriorated or it might indicate that the assets acquired in 2023 have not yet fully contributed to the business. A longer term trend would clarify the picture.

(3.5 marks)

Liquidity and working capital management
The current ratio has improved slightly over the year and is marginally higher than the industry average. It is also in line with what is generally regarded as satisfactory (2:1).

The quick ratio however has declined marginally but is still better than the industry average. This suggest that Mantemnate Ltd has no short term liquidity problems and should have no difficulty in paying its debts as they become due.

Receivables collection period has not changed significantly from 2022 and is considerably lower than the industry average. Consequently, there is probably little opportunity to reduce this further and there may be pressure in the future from customers to increase the period of credit given. The period of credit taken from suppliers has fallen from 40 days' purchases to 35 days and is much lower than the industry average. Thus, it may be possible to finance any additional receivables by negotiating credit terms from suppliers.

Inventory turnover has fallen slightly and is much slower than the industry average and this may partly reflect stocking up ahead of a significant increase in sales. Alternatively, there is some danger that the inventory could contain certain obsolete items that may require writing off. The relative increase in the nominal level of inventory has been financed by an increase overdraft which may reduce if the inventory level can be brought down.

The high level of inventory, overdraft and receivables compared to that of payables suggest a labour intensive company or one where considerable value is added to brought-in products.

(4 marks)

Gearing

The level of gearing has increased only slightly from 2022 to 2023 and it is still below the industry benchmark. There is still some modest room for increase in the level of gearing to finance productive assets, hence increase profitability, since the return on capital employed is almost twice the rate of interest on the loan notes.

(1.5 marks)

Conclusion

Overall, Mantemnate Ltd has improved significantly from the previous year to the present year but will still require a review of its working capital policy and assets contribution to sales to achieve the full benefits of the investments being made in both current and non-current assets.

(0.5 marks)

(Total: 20 marks)

EXAMINER’S COMMENTS

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

This was the best answered question. Almost all the candidates calculated the ratios correctly and gave good interpretation.

QUESTION FIVE

a) Advise to Esther

- Esther should arrange a meeting with Ameka to try to explain Ameka's misapplication of the IAS 16 guidance and to persuade Ameka that a change might be necessary.

- Ameka should be reminded that he too is bound by the same guidance that applies to Esther. Indeed, he has a greater responsibility as the more senior person to show leadership in this area.

- Esther cannot be party to the preparation and presentation of knowingly misleading information. She should explain that she cannot remain associated with information that is misleading. If Ameka refuses to allow the necessary changes to the information, Esther should report the matter to the audit committee or the other directors.

- As a last resort, if the company refuses to change the information Esther should resign from her post.

- Esther may need to consider informing the appropriate authorities in line with the Code's guidance on confidentiality.

(5 points @ 1 mark each = 5 marks)

b) The purpose of a conceptual framework

- It enables accounting standards and GAAP to be developed in accordance with agreed principles.
- It avoids 'fire-fighting', whereby accounting standards are developed in a piecemeal way in response to specific problems or abuses. 'Fire-fighting' can lead to inconsistencies between different accounting standards, and between accounting standards and legislation.
- Lack of a conceptual framework may mean that certain critical issues are not addressed, e.g. until recently there was no definition of basic terms such as 'asset' or 'liability' in any accounting standard.
- As transactions become more complex and businesses become more sophisticated it helps preparers and auditors of accounts to deal with transactions which are not the subject of an accounting standard.
- Accounting standards based on principles are thought to be harder to circumvent.
- A conceptual framework strengthens the credibility of financial reporting and the accounting profession.

(Any 5 points @ 1 mark each = 5 marks)

c) In the absence of an IFRS that specifically applies to a transaction, other event or condition, Management shall use its judgement in developing and applying an accounting policy that results in information that is:

- Relevant to the economic decision-making needs of users and
- Reliable, in that the financial statements:
  - ✓ Represent faithfully the financial position, financial performance and cash flows of the entity
  - ✓ Reflect the economic substance of transactions, other events and conditions, and not merely the legal form.
  - ✓ Are neutral, that is, free from bias
  - ✓ Are prudent and
  - ✓ Are complete in all material aspects

(Any 5 points @ 1 mark each = 5 marks)

d) The existence of significant influence by an investor is usually evidenced in one or more of the following ways:

- representation on the board of directors or equivalent governing body of the investee;
- participation in policy-making processes, including participation in decisions about dividends or other distributions;
- material transactions between the investor and the investee;
- interchange of managerial personnel; or
- provision of essential technical information.

(5 points @ 1 mark each = 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question required candidates to demonstrate knowledge in the content and application of Fundamental ethical requirement for accountants, IASB Conceptual framework, IAS 8 and IAS 28.

Many candidates provided the right answers.

CONCLUSION

Candidates are hereby advised to note the following for future guidance:

- Complete syllabus coverage is a necessity. The weighting of the syllabus is as follows:

✓ Regulatory, Conceptual and Ethical Framework	10%
✓ Content and Application of IFRSs	25%
✓ Presentation of Financial Statements –Single Entity (based on IFRSs)	20%
✓ Presentation of Consolidated Financial Statements (based on IFRSs)	25%
✓ Accounting Ratios and Interpretation of Financial Statements	20%

The above weighting indicates that the content and application of the IFRSs constitute about 70% of the syllabus and that hardly can a candidate pass the Financial Reporting paper if he/she does not put premium on the learning of the IFRSs.

- 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 marks question is 36 minutes.
- You must also provide the answers in direct responses to the requirements of the respective questions. Try to avoid deviations.
- It is always advisable to answer the easy questions (questions that you are comfortable with) first. This will enhance your confidence level and sustain your focus and tenacity throughout the three hours