



**APPLICATION LEVEL EXAMINATION**

**2024-2029 Syllabus**

**Mock Exam**

# **FINANCIAL REPORTING**

## **Paper 2.1**

## QUESTION ONE

The draft statements of financial position of three companies as on 30 September 2024 are as follows.

	<b>Handel Plc GH¢</b>	<b>Schubert Ltd GH¢</b>	<b>Albinoni Ltd GH¢</b>
<b>Assets</b>			
Non-current assets			
Property, plant and equipment	697,210	648,010	349,400
Investments:			
160,000 shares in Schubert Ltd	562,000	—	—
80,000 shares in Albinoni Ltd	184,000	—	—
Current assets			
Cash	101,274	95,010	80,331
Trade receivables	385,717	320,540	251,065
Inventory	495,165	388,619	286,925
	<b>2,425,366</b>	<b>1,452,179</b>	<b>967,721</b>
<b>Equity and liabilities</b>			
Share capital	600,000	200,000	200,000
Retained earnings	1,050,000	850,000	478,000
	1,650,000	1,050,000	678,000
Current liabilities	375,366	252,179	189,721
Non-current liabilities	400,000	150,000	100,000
	<b>2,425,366</b>	<b>1,452,179</b>	<b>967,721</b>

You are given the following additional information.

- Handel Plc purchased the 80% shareholding in Schubert Ltd on 13 October 2019 when Schubert's retained earnings were GH¢500,000. The non-controlling interest was measured using the proportionate method (as a percentage of the net assets of Schubert Ltd).
- The 40% shareholding in Albinoni Ltd were acquired on 11 May 2019 when Albinoni's retained earnings stood at GH¢242,000.
- The following dividends have been declared but not paid or accounted for before the year end.

	<b>GH¢</b>
Handel Plc	65,000
Schubert Ltd	30,000
Albinoni Ltd	15,000
- Included in the inventory figure for Albinoni Ltd is inventory measured at GH¢20,000 which had been purchased from Handel Plc at cost plus 25%.

- v) Included in the current liabilities figure of Handel Plc is GH¢18,000 payable to Albinoni Ltd, the amount receivable being recorded in the receivables figure of Albinoni Ltd.

**Required:**

Prepare the consolidated statement of financial position for the Handel Plc group as on 30 September 2024. **(20 marks)**

## QUESTION TWO

Kumasi Bio Plc is a bio-technology company performing research for pharmaceutical companies. The finance director has contacted your financial consulting company to arrange a meeting to discuss five issues relevant to the preparation of the financial statements for the year to 30 June 2022. Your initial telephone conversation has provided the necessary background information.

- a) On 1 August 2021 Kumasi Bio Plc began investigating a new bio-process. On 1 September 2022, the new process was widely supported by the scientific community and the feasibility project was approved. A grant was then obtained relating to future work. Several pharmaceutical companies have expressed an interest in buying the 'know how' when the project completes in June 2023. The nominal ledger account set up for the project shows that the expenditure incurred between 1 August 2021 and 30 June 2022 was GH¢300,000 per month.
- b) On 30 September 2021 an item of plant was taken out of productive use. The plant manager instructed an agent to sell the plant for no less than GH¢175,000. The agent is entitled to a commission of 4% on the selling price. The item is still held in the non-current asset register and the entry shows it was purchased on 1 July 2012 for GH¢260,000 with an estimated useful life of five years and a residual value of GH¢60,000. The carrying amount of the plant at 30 June 2022 was GH¢140,000.
- c) In August 2022, an employee lodged a legal claim against the company for damage to his health as a result of working for the company for the two years through to 31 March 2021 when he had to retire due to ill health. He has argued that his health deteriorated as a result of the stress from his position in the organisation. Kumasi Bio Plc has denied the claim and has appointed an employment lawyer to assist with contesting the case. The lawyer has advised that there is a 25% chance that the claim will be rejected, 50% chance that the damages will be GH¢600,000 and 25% chance of GH¢1 million. The company has an insurance policy that will pay 10% of any damages to the company. The lawyer has said that the case could take until 30 June 2018 to resolve. The present value of the estimated damages discounted at 8% is GH¢476,280 and GH¢793,800 respectively.
- d) Kumasi Bio Plc owns several buildings, which include an administrative office in the centre of Accra. The company revalues these on a regular basis every five years and the next valuation is due on 30 June 2024. Property prices have increased since the last review and particularly for the Accra premises. The cost of engaging a professionally qualified valuer is very expensive and so to reduce costs the finance director is proposing that the property manager, who is a professionally qualified valuer, should value the Accra property and that the increase in value should be included in the financial statements. The finance director is of the opinion that property prices may fall next year.

**Required:**

Prepare notes for your meeting with the finance director which explain and justify the accounting treatment of these issues, preparing calculations where appropriate and identifying matters on which you may require further information.

**(20 marks)**

### QUESTION THREE

Badu Trading Ltd has prepared the following draft financial statements for your review  
Badu Trading Ltd: Statement of profit or loss for year to 31 August 2023

	<b>GH¢000</b>
Revenue	30,000
Raw materials consumed	(9,500)
Manufacturing overheads	(5,000)
Increase in inventories of work in progress and finished goods	1,400
Staff costs	(4,700)
Distribution costs	(900)
Depreciation	(4,250)
Interest payable	(350)
Interim dividend paid	(200)
	<hr/>
	<b>6,500</b>
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#### Statement of financial position as at 31 August 2023

	<b>GH¢000</b>	<b>GH¢000</b>
Assets		
Non current assets		
Freehold land and buildings		20,000
Plant and machinery		14,000
Fixtures and fittings		5,600
		<hr/>
		39,600
Current assets		
Prepayments	200	
Trade receivables	7,400	
Inventories	700	
Cash at bank	4,600	
	<hr/>	
		12,900
		<hr/>
Total assets		52,500
		<hr/>
Equity and liabilities		
Equity shares		21,000
Revaluation surplus		5,000
Retained earnings		14,000
Share deals account		2,000
		<hr/>
Total equity		42,000
Current liabilities		5,300
		<hr/>
Non-current liabilities		
8% Debentures 2022		5,200

Total equity and liabilities

52,500

**Additional information:**

- i) Income tax of GH¢2.1 million has yet to be provided for on profits for the current year. An unpaid under-provision for the previous year's liability of GH¢400,000 has been identified on 5 September 2023 and has not been reflected in the draft accounts.
- ii) There have been no additions to, or disposals of, non-current assets in the year but assets under construction at the start of the year were completed in the year at an additional cost of GH¢50,000. These related to plant and machinery.

The cost and accumulated depreciation of non-current assets as at 1 September 2022 were as follows:

	Cost	Depreciation
	GH¢000	GH¢000
Freehold land and buildings (land element GH¢10 million)	19,000	3,000
Plant and machinery	20,100	4,000
Fixtures and fittings	10,000	3,700
Assets under construction	400	-

- iii) There was a revaluation of land and buildings during the year, creating the revaluation surplus of GH¢5 million (land element GH¢1 million). The effect on depreciation has been to increase the buildings charge by GH¢300,000. Badu Trading Ltd adopts a policy of transferring the revaluation surplus included in equity to retained earnings as it is realised.
- iv) Staff costs comprise 70% factory staff, 20% general office staff and 10% goods delivery staff
- v) An analysis of depreciation charge shows the following:

	GH¢000
Buildings (50% production, 50% administration)	1,000
Plant and machinery	2,550
Fixtures and fittings (30% production, 70% administration)	700

**Required:**

Prepare the following information in a form suitable for publication for Badu Trading Ltd's financial statements for the year ended 31 August 2023.

- a) Statement of profit or loss and other comprehensive income, with expenses analysed by function (7 marks)
- b) Statement of financial position (7 marks)
- c) Statement of changes in equity (6 marks)

(Total: 20 marks)

## QUESTION FOUR

The statements of profit or loss and statements of financial position of two manufacturing companies in the same sector are set out below for the year ended 31 December 2023.

	<b>Chris Ltd</b>		<b>Caroline Ltd</b>	
	<b>GH¢</b>		<b>GH¢</b>	
Revenue	150,000		700,000	
Cost of sales	(60,000)		(210,000)	
Gross profit	90,000		490,000	
Distribution costs	(13,000)		(72,000)	
Administrative expenses	(15,000)		(35,000)	
Interest payable	(500)		(12,000)	
Profit before tax	61,500		371,000	
Income tax expense	(16,605)		(100,170)	
Profit for the period	44,895		270,830	

	<b>Chris Ltd</b>	<b>GH¢</b>	<b>Caroline Ltd</b>	<b>GH¢</b>
	<b>GH¢</b>		<b>GH¢</b>	
Assets				
Non-current assets				
Property	-		500,000	
Plant and equipment	190,000		280,000	
		190,000		780,000
Current assets				
Inventories	12,000		26,250	
Trade receivables	37,500		105,000	
Cash at bank	500		22,000	
		50,000		153,250
Total assets		240,000		933,250
Equity and liabilities				
Equity				
Share capital	156,000		174,750	
Retained earnings	51,395		390,830	
		207,395		565,580
Non-current liabilities				
Long-term debt		10,000		250,000
Current liabilities				



Trade payables	22,605	117,670
	<hr/>	<hr/>
Total equity and liabilities	240,000	933,250
	<hr/>	<hr/>

**Required:**

Use ratio analysis to compare the profitability, efficiency/liquidity and solvency of the two entities. State, giving reasons, which is the stronger company in each case.

**(20 marks)**

## QUESTION FIVE

- a) The IASB's Conceptual Framework defines assets and explains the criteria that should be met before an asset should be recognised in the financial statements.

**Required:**

Explain the recognition criteria for assets set out in the IASB's Conceptual Framework and explain why some items meet the definition of an asset might not be recognised. **(6 marks)**

- b) Companies are increasingly expected to prepare reports explaining how sustainability issues affect them and how their business and operations affect the environment and society around them.

**Required:**

Explain how the IFRS Foundation has addressed the global move towards reporting on sustainability issues. **(4 marks)**

- c) On 30 September 2024 Skyward Ltd entered into a lease agreement to obtain the use of a machine. The agreement stipulated a lease term of eight years with payment of GH¢150,000 due at the end of each year of the term, however it also included a clause allowing Skyward to terminate the lease after five years in exchange for a one-off payment of GH¢200,000. At the commencement of the lease Skyward Ltd expected to exercise the early termination option. Skyward Ltd paid GH¢7,500 legal fees to negotiate the lease. The interest rate implicit in the lease cannot be readily determined.

**Required:**

Explain how Skyward Ltd should recognise the lease in its statement of financial position prepared as at 30 September 2024 in accordance with *IFRS: 16 Leases*. **(5 marks)**

- d) List the **FIVE** fundamental principles set out in the IESBA Code of Ethics and the **FIVE** categories of threats to these fundamental principles. **(5 marks)**

**(Total: 20 marks)**

## SOLUTION TO QUESTIONS

### QUESTION ONE

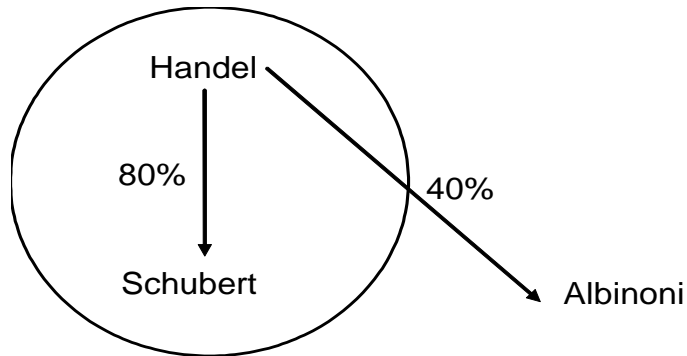
#### Handel Plc

(a) **Consolidated statement of financial position as at 30 September 2024**

	GH¢	GH¢
<b>Assets</b>		
Non-current assets		
Property, plant and equipment (697,210 + 648,010)	1,345,220	
Interest in associate (W6)	270,800	
Goodwill	2,000	
		1,618,020
Current assets		
Inventory (495,165 + 388,619)	883,784	
Receivables (385,717 + 320,540 + 6,000)	712,257	
Cash at bank and in hand (101,274 + 95,010)	196,284	
		1,792,325
Total assets		<b>3,410,345</b>
		<b>GH¢</b>
<b>Equity and liabilities</b>		
Capital and reserves		
Share capital		600,000
Retained earnings (W5)		1,357,800
		1,957,800
Non-controlling interest		204,000
Non-current liabilities (400,000 + 150,000)		550,000
Current liabilities		
Trade payables (375,366 + 252,179) (note 2)		627,545
Declared dividends – parent company		65,000
– non-controlling interest		6,000
		698,545
Total equity and liabilities		<b>3,410,345</b>

## Workings

### (1) Group structure



(2)

### Schubert

### Net assets

	<i>Reporting date</i>		<i>Acquisition date</i>		<i>Post acquisition</i>
	<b>GH¢</b>	<b>GH¢</b>	<b>GH¢</b>	<b>GH¢</b>	<b>GH¢</b>
Share capital		200,000		200,000	
Retained earnings	850,000		500,000		
Declared dividend	(30,000)				
	<u>          </u>		<u>          </u>		
		820,000		500,000	320,000
		<u>          </u>		<u>          </u>	
		1,020,000		700,000	
		<u>          </u>		<u>          </u>	

(3)

### Goodwill Schubert

	<b>GH¢</b>
Consideration	562,000
Non-controlling interest (20% x 700,000 (W2))	140,000
Net assets of Schubert Ltd at acquisition	(700,000)
	<u>          </u>
	2,000

(4)

### Non-controlling interest

Non-controlling interest at acquisition (W3)	140,000
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	Share of post-acquisition profits ( $20\% \times 320,000$ ) (W2)	64,000
		<u>204,000</u>
(5)	<b>Retained earnings</b>	
		<b>GH¢</b>
	Handel	1,050,000
	Dividends receivable – Schubert ( $80\% \times 30,000$ )	24,000
	– Albinoni ( $40\% \times 15,000$ )	6,000
	Declared dividend	<u>(65,000)</u>
		1,015,000
	Schubert ( $80\% \times 320,000$ (W2))	256,000
	Albinoni (W6)	88,400
	Unrealised profit (W7)	<u>(1,600)</u>
		<u>1,357,800</u>

(6) **Investment in associate**

**GH¢000**

Cost	184,000
Share of post-acquisition profit (40% × [ (478 – 15) – 242 ])	88,400
Unrealised profit (W7)	(1,600)
	<hr/>
	270,800

(7) **Unrealised profit**

**GH¢**

*Step 1 – Unrealised profit*

GH¢20,000 ×  $\frac{25}{125}$  4,000

*Step 2 – H's share*

GH¢4,000 × 40% 1,600

*Step 3 – Double entry*

Dr Retained earnings	1,600	
Cr Investment in associate		1,600

**(20 marks evenly spread using ticks)**

## **QUESTION TWO**

### **Kumasi Bio Plc**

#### **a) Development expenditure**

IAS 38 on intangibles requires that research and development be considered separately:  
research – must be expensed as incurred

development – must be capitalised where certain criteria are met.

It must first be clarified how much of the GH¢3 million incurred to date (10 months at GH¢300,000) is simply research and how much is development. The development element will only be capitalised where the IAS 38 criteria are met. The criteria are listed below together with the extent to which they appear to be met.

The project must be believed to be technically feasible. This appears to be so as the feasibility has been acknowledged.

There must be an intention to complete and use/sell the intangible. Completion is scheduled for June 2023

The entity must be able to use or sell the intangible. Interest has been expressed in purchasing the know-how on completion

It must be considered that the asset will generate probable future benefits. Confirmation is required from Kumasi Bio Plc as to the extent of interest shown by the pharmaceutical companies and whether this is of a sufficient level to generate orders and to cover the deferred costs.

Availability of adequate financial and technical resources must exist to complete the project. The financial position of Kumasi Bio Plc must be investigated. A grant is being obtained to fund further work and the terms of the grant, together with any conditions, must be discussed further.

Able to identify and measure the expenditure incurred. A separate nominal ledger account has been set up to track the expenditure.

If all of the above criteria are met, then the development element of the GH¢3m incurred to date must be capitalised as an intangible asset. Amortisation will not begin until commercial production commences.

**(5 marks)**

**b) Non-current asset held for sale**

IFRS 5 on non-current assets held for sale and discontinued operations requires that where a non-current asset is being held for sale, rather than for continued use in the business, it must be re-classified in the statement of financial position, re-measured and depreciation must cease to be charged.

For the asset to be classified as “held for sale” it must be available for immediate sale in its present condition and the sale must be highly probable. This requires that:

The appropriate level of management are committed to the plan

An active programme is underway to locate a buyer

The asset is being marketed at a price that is reasonable in relation to its fair value

Completion of the sale is anticipated within one year of classification.

From the information provided, an agent has been instructed by the plant manager, which suggests that the organisation is committed to the plan to sell the asset. Confirmation is required that the price of GH¢175,000 is reasonable in relation to fair value. The asset has been out of use now for 9 months and this may suggest that the target price is too high and that a sale may not be achieved within the year.

If reassurance as to the above conditions can be obtained, the asset must be reclassified in the statement of financial position as “Non-current assets held for sale”, positioned under current assets. It should be re-measured to GH¢168,000 being the lower of carrying amount (GH¢170,000 see below) and fair value less costs to sell (GH¢175,000 x 96%). The write down of GH¢2,000 should be charged to the profit or loss for the year. Depreciation should cease from the date of classification.

**Workings**

The fair value less cost to sell is GH¢175,000 – 4% agents fees = GH¢168,000

Annual depreciation is:

Cost	GH¢260,000
Residual value	GH¢ 60,000
Depreciable amount	GH¢200,000
Useful life	5 years
Annual depreciation	GH¢40,000

The current carrying amount of GH¢140,000 shows that the asset has received three years of depreciation by the 30 June 2022 (GH¢260,000 less (3 × GH¢40,000)). If classified as held for sale, depreciation should have ceased on 30 September 2022 and 9 months of depreciation should be added back ( $9/12 \times \text{GH¢}40,000 = \text{GH¢}30,000$ ), giving a revised carrying value of GH¢170,000.

**(5 marks)**



**c) Provision**

Although the claim was made after the reporting period, IAS 10 considers this to be an adjusting event after the reporting period. The employment of the individual dates back to 2012 and so the lawsuit constitutes a current obligation for the payment of damages as a result of this past event (the employment).

The amount and the timing are not precisely known but the likelihood of payment of damages by Kumasi Bio Plc is probable and so a provision should be made for the estimated amount of the liability, as advised by the lawyer. Disclosure, rather than provision, would only be appropriate if the expected settlement was possible or remote, and the lawyer's view is that a payment is more likely than not.

It is not appropriate to calculate an expected value where there is only one event, instead a provision should be made for the most likely outcome. The lawyer has various views on the possible pay-out, but the most likely pay-out is GH¢600,000 as this has a 50% probability. As settlement of the provision is not anticipated until 2018, the provision should be discounted at 8% to give a liability of GH¢476,280.

Provided that the payment from the insurance company is virtually certain, this should be shown as an asset, also at its discounted value of GH¢47,628, being 10% of the provision.

In both cases the discounting should be unwound over the coming three years through profit or loss.

**(5 marks)**

**d) Revaluation**

IAS 16 on Property, Plant and Equipment does not impose a frequency for updating revaluations. It simply requires a revaluation where it is believed that the fair value of the asset has materially changed. Hence, if in the past there have been material differences between the carrying amount and fair value at the 5 yearly review then Kumasi Bio Plc should consider having more frequent valuations following on from this year's valuation.

Revaluations should be regular and not timed simply when property prices are at a peak. It is not acceptable for Kumasi Bio Plc to defer its next revaluation while values are low. If property prices do fall in 2023, then it may be necessary to perform an impairment test in accordance with IAS 36: *Impairment of Assets*.

If it is believed that an asset's fair value has moved materially, then all assets in that class must be revalued. Hence it is not sufficient for Kumasi Bio Plc to just revalue the Accra property.

IAS 16 does not require the valuation to be performed by an external party, and so the use of the property manager to conduct the valuations is acceptable. Notes to the financial statements will disclose that he is not independent of the company.

**(5 marks)**

**(Total: 20 marks)**

### QUESTION THREE

#### Badu Trading Ltd

(a) **Statement of profit or loss and other comprehensive income for the year ended 31 August 2023**

	<b>GH¢000</b>
Revenue	30,000
Cost of sales (w1)	<u>(19,650)</u>
Gross profit	10,350
Distribution costs (w1)	<u>(1,370)</u>
Administrative expenses (w1)	<u>(1,930)</u>
Profit from operations	7,050
Finance costs	<u>(350)</u>
Profit before tax	6,700
Tax (w2)	<u>(2,500)</u>
Profit after tax	4,200
Other comprehensive income	
Gain on property revaluation	<u>5,000</u>
Total comprehensive income	<u><u>9,200</u></u>

(b) **Statement of financial position as at 31 August 2023**

	<b>GH¢000</b>	<b>GH¢000</b>
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment		39,600
<b>Current assets</b>		
Inventory	4,600	
Trade and other receivables (7,400 + 200)	7,600	
Cash and cash equivalents	700	
		<u>12,900</u>
<b>Total assets</b>		<u><u>52,500</u></u>
<b>Equity and liabilities</b>		
<b>Capital and reserves</b>		
Equity shares		21,000
Share premium		2,000
Revaluation surplus		4,700
Retained earnings		<u>11,800</u>
Total equity		39,500
<b>Non-current liabilities</b>		
Borrowings		5,200
<b>Current liabilities</b>		
Trade and other payables	5,300	
Taxation (2,100 + 400)	2,500	

	7,800
<b>Total equity and liabilities</b>	<u>52,500</u>

**C) Statement of changes in equity for the year ended 31 August 2023**

	Share capital GH¢000	Share Deals GH¢000	Revaluation surplus GH¢000	Retained earnings GH¢000	Total GH¢000
Balance at beginning of year	21,000	2,000	0	7,500	30,500
Dividends paid				(200)	(200)
Profit for the period				4,200	4,200
Other comprehensive income			5,000		5,000
Transfer of excess depreciation on revaluation			(300)	300	0
<b>Balance at end of year</b>	<u>21,000</u>	<u>2,000</u>	<u>4,700</u>	<u>11,800</u>	<u>39,500</u>

**Workings**

**1 Allocation of expenses**

	Cost of sales GH¢000	Admin GH¢000	Distrib GH¢000
Raw materials consumed	9,500		
Manufacturing overheads	5,000		
Increase in inventories	(1,400)		
Staff costs (70%/20%/10%)	3,290	940	470
Distribution costs			900
Depreciation			
Building (50%/50%)	500	500	
Plant and machinery	2,550		
Fixtures and fittings (30%/70%)	210	490	
	<u>19,650</u>	<u>1,930</u>	<u>1,370</u>

**2 Retained earnings brought forward**

	GH¢000	GH¢000
Retained earnings carried forward per question		14,000
Less tax charge		
- Current year estimate	2,100	
- Underprovision in previous year	400	
	<u></u>	(2,500)
Add transfer of excess depreciation on revalued building		300
		<u>11,800</u>

**(20 marks evenly spread using ticks)**

## QUESTION FOUR

### Analysis

#### Profitability

The return on capital employed achieved by Chris Ltd (28.5%) is substantially lower than that achieved by Caroline Ltd (47%). This variation in performance is also seen at the gross profit (60% compared to 70%) and net profit levels (30% compared to 39%).

The variation in gross profit percentage could be caused by differences in sales mix, inventory valuation methods or mark-up.

Since these entities operate in the same sector it is unlikely that their selling prices differ significantly. However, Caroline Ltd, as a much larger entity, may be able to negotiate better prices from its suppliers.

Caroline Ltd is also more efficient at using its assets. It is generating 85c per GH¢1 of assets whereby Chris Ltd is only generating 70c per GH¢1.

#### Efficiency/liquidity

The liquidity of both entities appears satisfactory, although Caroline Ltd has less funds tied up in its current assets. Caroline Ltd is also more efficient at collecting its debts (55 days compared to Chris Ltd's 91 days), and takes a longer credit period from its suppliers.

#### Solvency

Caroline Ltd is much more highly geared than Chris Ltd (44% compared to 4.8%). Caroline Ltd has the ability to raise debt more easily because of its greater profitability and its property, on which debt can be secured. Both companies can easily cover their interest payments suggesting that neither entity's debt is at risk.

**Conclusion:** Caroline Ltd is the stronger entity.

#### Ratios

		Chris	Caroline
Gross profit %	W1	60%	70%
Net profit %	W2	30%	39%
Return on capital employed	W3	28.5%	47%
Asset turnover	W4	0.7 times	0,85 times
Current ratio	W5	2.2 times	1.3 times
Quick ratio	W6	1.7 times	1.1 times
Receivables days	W7	91 days	55 days
Payables days	W8	137 days	204 days
Inventory days	W9	73 days	46 days
Gearing ratio	W10	4.8%	44%
Interest cover	W11	124 times	32 times

(20 marks evenly spread using ticks)

## Workings

### W1 Gross profit%

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Sales}} \times 100$$

	Chris	Caroline
Chris: (90,000/150,000) × 100	60%	
Caroline: (490,000/700,000) × 100		70%

### W2 Net profit%

$$\text{Net profit margin} = \frac{\text{Net profit}}{\text{Sales}} \times 100$$

	Chris	Caroline
Chris: (44,895/150,000) × 100	30%	
Caroline: (270,830/700,000) × 100		39%

### W3 Return on capital employed

$$\text{ROCE} = \frac{\text{Profit before interest and tax}}{\text{Share capital and reserves + Long term debt}} \times 100$$

	Chris	Caroline
Chris: (62,000 (W13)/217,395 (W12)) × 100	28.5%	
Caroline: (383,000 (W13)/815,580 (W12)) × 100		47%

### W4 Asset turnover

$$\text{Asset turnover} = \frac{\text{Sales}}{\text{Share capital and reserves + Long term debt}}$$

	Chris	Caroline
Chris: (150,000/217,395 (W12)) × 100	0.7 times	
Caroline: (700,000/815,580 (W12)) × 100		0.85 times

### W5 Current ratio

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

	Chris	Caroline
Chris: 50,000/22,605	2.2 times	
Caroline: 153,250/117,670		1.3 times

### W6 Quick ratio

$$\text{Quick ratio} = \frac{\text{Current assets less inventory}}{\text{Current liabilities}}$$

	Chris	Caroline
Chris: (50,000 – 12,000)/22,605	1.7 times	
Caroline: (153,250 – 26,250)/117,670		1.1 times

**W7 Receivables days**

$$\text{Receivable days} = \frac{\text{Trade receivables}}{\text{Sales}} \times 365$$

	<b>Chris</b>	<b>Caroline</b>
Chris: $(37,500/150,000) \times 365$	91 days	
Caroline: $(105,000/700,000) \times 365$		55 days

**W8 Payables days**

$$\text{Payables days} = \frac{\text{Trade payables}}{\text{Cost of sales}} \times 365$$

	<b>Chris</b>	<b>Caroline</b>
Chris: $(22,605/60,000) \times 365$	137 days	
Caroline: $(117,670/210,000) \times 365$		204 days

**W9 Inventory days**

$$\text{Inventory days} = \frac{\text{Inventory}}{\text{Cost of sales}} \times 365$$

	<b>Chris</b>	<b>Caroline</b>
Chris: $(12,000/60,000) \times 365$	73 days	
Caroline: $(26,250/210,000) \times 365$		46 days

**W10 Gearing ratio**

$$\text{Gearing ratio} = \frac{\text{Long term debt}}{\text{Share capital and reserves}} \times 100$$

	<b>Chris</b>	<b>Caroline</b>
Chris: $(10,000/207,395 \text{ (W12)}) \times 100$	4.8%	
Caroline: $(250,000/565,580 \text{ (W12)}) \times 100$		44%

**W11 Interest cover**

$$\text{Interest cover} = \frac{\text{Profit before interest and tax}}{\text{Interest}}$$

	<b>Chris</b>	<b>Caroline</b>
Chris: $62,000 \text{ (W13)} / 500$	124 times	
Caroline: $383,000 \text{ (W13)} / 12,000$		32 times

**W12 Share capital and reserves + long term debt**

	<b>Chris</b>	<b>Caroline</b>
Share capital	156,000	174,750
Reserves	51,395	390,830
	<hr/> 207,395	<hr/> 565,580
Long term debt	10,000	250,000
	<hr/> 217,395	<hr/> 815,580

**W13 Profit before interest and tax**

	<b>Chris</b>	<b>Caroline</b>
Profit before tax	61,500	371,000
Add back interest	500	12,000
	<hr/> 62,000	<hr/> 383,000

## QUESTION FIVE

### (a) Recognition criteria for assets in the IASB's Conceptual Framework

Only items that meet the definition of an asset, a liability or equity are recognised in the statement of financial position.

However, not all items that meet the definition of one of those elements are recognised. An asset is recognised only if recognition of that asset provides users of financial statements with information that is useful, i.e. with: relevant information about the asset and about any resulting income, expenses or changes in equity; and a faithful representation of the asset and of any resulting income, expenses or changes in equity.

Information about an asset may not be relevant when there is uncertainty about its existence or when there is only a low probability of an inflow of economic benefits in respect of that asset.

Whether a faithful representation can be provided may be affected by the level of measurement uncertainty associated with the asset.

Specific rules in the standards provide additional guidance which results in the recognition of assets that meet these requirements. For example, IAS 38 *Intangible Assets* contains more detailed recognition guidance for the recognition of intangible assets, including those that are internally generated assets. This latter guidance attempts to ensure that internally generated assets are recognised when there is a degree of certainty about its existence and that it can be measured reliably.

**(6 marks)**

### (b) IFRS Foundation and sustainability reporting

Over several years, different bodies and organisations have issued guidance on corporate sustainability reporting. As a result there was no single globally accepted set of standards or sources of guidance.

The IFRS Foundation is seeking to address this and set up the International Sustainability Standards Board (ISSB) in 2021. Its aim is to develop a global baseline of sustainability disclosure standards. These will complement IFRS Accounting Standards issued by the IASB.

To date the ISSB has issued two IFRS Disclosure Standards, with the first providing a general framework for sustainability disclosure and the second applying this to climate-related issues.

Both Standards require the disclosure of sustainability-related risks and opportunities, which allows users to understand both negative and positive effects of sustainability issues on a company.

**(4 marks)**

**c) Lease agreement**

Skyward Ltd is the lessee and should recognise a lease liability and right-of-use asset in respect of the leased machine on 30 September 2024.

The lease liability is measured at the present value of future lease payments over the lease term. The lease term in the agreement is eight years, however Skyward Ltd expects to exercise an early termination option after five years. Therefore, the future lease payments to be discounted are the GH¢150,000 payments due at the end of each of the five years of the expected term plus the GH¢200,000 termination penalty. The payments should be discounted at the interest rate implicit in the lease, however as this cannot be determined, Skyward Ltd's incremental borrowing rate should be used. In the statement of financial position, the total lease liability should be presented split between current and non-current elements.

Skyward should measure the right-of-use asset on 30 September 2024 at an amount equal to the initial measurement of the lease liability plus the initial direct costs of GH¢7,500. This should be presented as a non-current asset in the statement of financial position.

**(5 marks)**

**d) Fundamental principles**

- Integrity
- Objectivity
- Professional competence and due care
- Confidentiality
- Professional behaviour

**Threats to the fundamental principles**

Self-interest threat

Self-review threat

Advocacy threat

Familiarity threat

Intimidation threat

**(5 marks)**

**(Total: 20 marks)**