MARCH 2025 PROFESSIONAL EXAMINATIONS
CORPORATE REPORTING (PAPER 3.1)
CHIEF EXAMINER'S REPORT

EXAMINER'S GENERAL COMMENTS

This exam diet was the second exam diet since the new ICAG syllabus was introduced. The paper was generally a difficult paper for many candidates compared to previous diets under the old syllabus. The questions were based on the syllabus albeit some of the questions were not the usual questions candidate will expect. 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 not 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. Most candidates did not attempt all questions.

QUESTION ONE

Pato Aluworks Group (Pato) is an aluminium processing and casting entity that supplies high quality aluminum coils to both local and foreign markets. Pato has 3 subsidiaries namely Asanka, Jaritan and Topoya and one associate Dosi all of which it acquired several years ago. The Group's Consolidated Statement of Profit or Loss Account for the year ended 31 December 2024 and Consolidated Statement of Financial Position as that date are set out below:

Consolidated Statement of Profit or Loss for the year ended 31 December (extract)

	2024	**2023**
	GH¢	**GH¢**
Profit from operations	651,150	640,496
Impairment reversal/(loss)	2,500	(1,250)
Finance costs	(52,000)	(40,825)
Share of profits of associate	127,575	108,439
Profit before tax	**729,225**	**706,860**
Income tax expense	(145,800)	(123,930)
Profit for the year (continuing operations)	583,425	582,930
Profit for the year (discontinued operations)	102,375	-
Profit for the year	**685,800**	**582,930**
Attributable to:		
Owners of Pato	571,725	485,966
Non-controlling interest	114,075	96,964
	685,800	582,930

Consolidated Statement of Financial Position as at 31 December

ASSETS	**2024**	**2023**
Non-current assets	**GH¢**	**GH¢**
Property, plant and equipment	2,283,350	2,212,875
Intangible assets	22,000	-
Investment in associate	418,275	404,550
	2,723,625	**2,617,425**
Current assets		
Trade and other receivables	170,325	200,025
Cash and cash equivalents	46,125	32,625
	216,450	**232,650**
Total assets	**2,940,075**	**2,850,075**
EQUITY AND LIABILITIES		
Equity		
Ordinary share capital (GH¢0.50 shares)	495,000	315,000
Share deals account	112,500	45,000
Retained earnings	1,491,750	1,518,975
Attributable to the equity holders of Pato	2,099,250	1,878,975
Non-controlling interest	315,450	339,300
	2,414,700	**2,218,275**
Non-current liabilities		
Lease Liabilities	239,100	300,000
Employee benefit obligations	42,150	37,500

Current liabilities		
Trade and other payables	90,000	118,800
Due to related parties	1,125	-
Income tax payable	153,000	175,500
	244,125	**294,300**
Total equity and liabilities	**2,940,075**	**2,850,075**

Additional information:

i) Pato owns 60% in Jaritan. The goodwill attributable to Pato arising on acquisition was GH¢67,500. The carrying value of Jaritan's identifiable net assets (excluding goodwill arising on acquisition) in the group consolidation financial statements is GH¢180,000 at 31 December 2024. The recoverable amount of Jaritan is expected to be GH¢230,000 and no impairment loss had been recorded up to 31 December 2023.

ii) Pato sold all of its 75% shareholding in Asanka for cash during the year end December 31, 2024. As at December 31, 2023, all of the goodwill acquired in the business combination with Asanka had been written off. The profit from discontinued operations in the consolidated income statement above relates wholly to the sale of the shares in Asanka and can be analysed as follows:

	GH¢
Profit before tax	93,150
Income tax expense	(14,400)
Profit on disposal	23,625
	102,375

The net assets of Asanka at the date of disposal were as follows:

	GH¢
Property, plant and equipment	421,875
Trade and other receivables	31,275
Cash and cash equivalents	3,375
Trade and other payables	(19,012)
	437,512

iii) On 31 March 2024 Pato issued 100,000 ordinary shares for cash. This was followed by a bonus issue on 30 September 2024, utilising the share deals account. The consolidated statement of changes in equity for the year shows that all group companies paid ordinary dividends during the year.

iv) Depreciation of GH¢395,100 was recognised during the year ended 31 December 2024. In addition to the property, plant and equipment disposed of through the sale of Asanka, plant with a carrying amount of GH¢126,000 was sold for cash of GH¢135,000.

v) Trade and other payables include GH¢11,250 (2023: GH¢6,750) of unpaid interest due on the bank loan.

Required:

Prepare a consolidated statement of cash flows for Pato for the year ended 31 December 2024, including a note reconciling profit before tax to cash generated from operations, using the indirect method. (A note showing the effects of the disposal of Asanka is **not** required).

(Total: 20 marks)

QUESTION TWO

a) Amugi, a public listed company, is a producer of soft drinks. Recently, Amugi has been experiencing financial difficulties attributed to a recession. Extract of Statement of Financial Position and Statement of Profit or Loss for the year ended 30 June 2024 are as shown below:

Statement of Financial Position as at 30 June 2024 (Extract)

	GH¢000
Property, Plant and Equipment	214,080
Non-current liabilities	
Deferred tax liability	13,080
Current liabilities	
Current tax payable	-

Statement of Profit or Loss account for the year ended 30 June 2024 (Extract)

	GH¢000
Gross Profit	189,000
Distribution costs	(200,520)
Loss before tax	(11,520)
Income tax expense	-
Loss for the year	(11,520)

The carrying amount of land and buildings included in 'Property, plant and equipment' in the draft financial statements above was GH¢144 million. Depreciation for the period of GH¢14.4 million on property, plant and equipment has already been accounted for. The market value of the land and buildings as assessed by professionally qualified valuers was GH¢151.2 million as at 30 June 2024. Gains and losses on property are taxable or tax deductible on sale.

The tax base of all property, plant and equipment at 30 June 2024 was GH¢150.48 million. Losses incurred in the year ended 30 June 2024 that can be recognised for tax purposes (after taking into account disallowable expenses) amounted to GH¢23.04 million. In the industry in which Amugi operates, tax losses can be carried back for three years and then carried forward indefinitely. Amugi made a profit in the previous three years sufficient to absorb the current year tax losses. Amugi pays tax at 25% and the tax losses will be applied at that rate. The rate is not expected to change.

The deferred tax liability in the above extract statement of financial position is the figure at 1 July 2023. There were no temporary differences other than those noted above. Current tax assets and liabilities can be netted in the tax regime.

Required:
Using financial statement extracts, set out the financial accounting treatment of the above items in accordance with ***IAS 12: Income Taxes***. **(6 marks)**

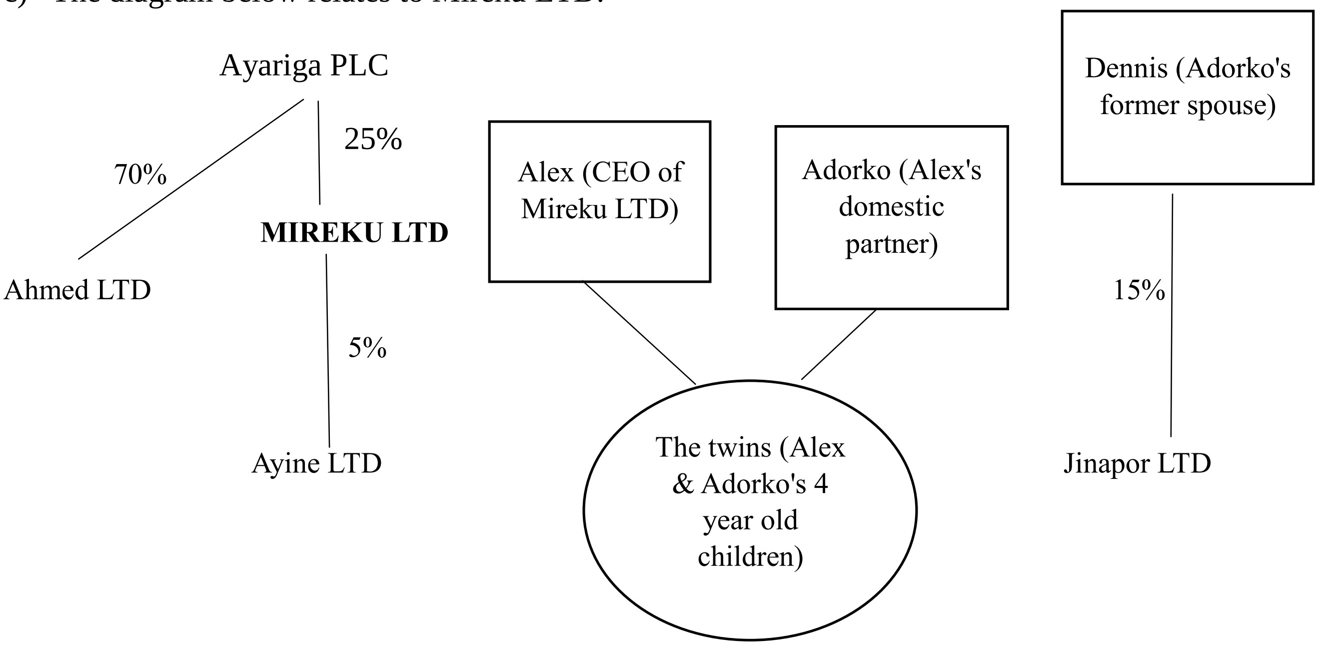
b) Paakofi is adopting IFRSs for the first time for the year ended 30 September 2024, with one year of comparative information. Information in respect of the years ending 30 September 2023 and 30 September 2022 is as follows:

		30/9/2023 GH¢'000	30/9/2022 GH¢'000
Property, Plant and Equipment (previous GAAP)	- depreciated cost	77,600	80,400
	- fair value	92,000	88,000
Capitalised staff training costs (at carrying amounts under previous GAAP)		3,000	4,000
Borrowing costs incurred for an asset under construction (cumulative) (expensed under previous GAAP) (asset construction began on 1 October 2021)		360	240
Provision for court case - previous GAAP valuation and recognition basis		1,200	480
- IFRS valuation and recognition basis		1,200	-

Paakofi wishes to use all exemptions available to the company on transition to IFRSs.

Required:
Calculate the total adjustment required to Paakofi's opening equity at the date of transition to IFRSs (insofar as the information provided permits). **(4 marks)**

c) The diagram below relates to Mireku LTD.



Additional information:

i) Ayariga PLC shares control of Ahmed LTD, with another company Brakatu PLC, which owns 30% of Ahmed LTD. Under an agreement between Ayariga PLC and Brakatu PLC all decisions about operating and all other activities are made jointly.

ii) In all other circumstances above, percentage shareholdings are equivalent to voting rights and influence.

iii) Ayine LTD is Mireku LTD's main customer, representing approximately 55% of Mireku's revenue stream.
iv) Dennis pays monthly upkeep allowance to Adorko.

Required:
Justify whether each of the parties in the above diagram is or is not considered a related party of Mireku LTD in accordance with ***IAS 24: Related Party Disclosures***. **(6 marks)**

d) Identify **FOUR** indicators of a hyperinflationary economy in accordance with ***IAS 29: Financial Reporting in Hyperinflationary Economies.*** **(4 marks)**

(Total: 20 marks)

QUESTION THREE

a) Djato Autos LTD (DA) is a major car distributor in Ghana. DA is currently preparing its financial statements for the year ended 31 August 2024. The company sells cars in three different zones across Ghana. At reporting date, DA has a fleet of 300 cars (same type, model, and age) for which DA's directors would like to estimate their fair value.

The board chairperson believes that the fair value should be based on inputs from the market which provides the highest net benefits from car sales. Information about all three markets is as follows:

	Total market volume	**DA's sales volume**	**Selling price GH¢**	**Transportation costs GH¢**	**Transaction costs GH¢**
Northern zone	6,500	960	27,000	2,000	1,500
Southern zone	9,800	608	28,000	3,100	1,900
Western zone	5,000	800	25,000	2,500	2,500
Total	**21,300**	**2,368**			

Required:
In line with ***IFRS 13: Fair Value Measurement***, explain with calculations how much fair value should be placed on the total 300 cars at 31 August 2024, and comment on the correctness of the board chairperson's opinion. **(5 marks)**

b) A pharmaceutical entity, Kwanpa Pharma (KP), is currently developing a drug that will be used in the treatment of a very specific ailment affecting a small group of patients. Management has decided to pursue this drug for reputational reasons. KP has introduced an innovative pricing mechanism for this drug, whereby a patient will only pay if the drug is proven to be effective. KP has received regulatory approval from the Food and Drugs Authority and believes that all other capitalisation criteria in ***IAS 38: Intangible Assets*** have been met, except for concerns about its market potential.

In a different situation, KP has determined that it has met the capitalisation criteria for a vaccine delivery device. It is continuing expenditure on the device to add new functionality. The development of this device will require new regulatory approval.

Required:
In line with **IAS 38:** ***Intangible Assets***, explain how KP should account for the development cost for the limited market use and the development expenditure on the new functionality.

(5 marks)

c) Tupaye Minerals LTD (TML) is making significant strides in Ghana's mining sector with its recent discovery of lithium deposits in commercial quantities. This project is poised to be the first lithium mine in the country and industry specialists expect it to significantly contribute to the global supply of spodumene concentrate - a critical raw material for lithium-ion batteries. The company aims to produce over 300,000 tonnes of spodumene concentrate annually, making it one of the largest operations of its kind globally. As expected, the Project has garnered huge attention for its potential economic benefits, including job creation, local investment opportunities and substantial revenue generation. Recently, TML listed on the Ghana Stock Exchange (GSE), allowing local investors to participate in the project and aiming to foster greater local ownership and economic inclusion.

Despite its promising prospects, the project faces multifaceted challenges spanning environmental, social and governance concerns that need addressing to ensure long-term viability and minimal negative impact on the environment and local communities. For instance, to initiate its operations, there is the need for extensive land clearing, while during operations, a water-intensive extraction technology is expected to be deployed. Due to the expected heightened health risks from exposure to the mining-related pollutants, local communities are to be relocated. Industry experts suggest that regulatory compliance is likely to be hindered by enforcement weaknesses, while transparency and accountability issues risk undermining sustainability and community trust. The experts similarly suggest that to ensure long-term sustainability, there is the need for robust post-mining land rehabilitation, ongoing community engagement, and the adoption of sustainable mining practices like renewable energy usage and efficient waste management to mitigate environmental impacts.

You are the honourary Vice-President in charge of climate and sustainability research of a leading Think Tank in Ghana, you have been invited by a national television station as a guest speaker on its current affairs programme

Required:
Discuss the sustainability issues associated with the operations of **TML** with regards to ***environmental***, ***social*** and ***governance*** issues to help the ordinary Ghanaian understand the operations of TML. **(10 marks)**

(Total: 20 marks)

QUESTION FOUR

a) Gogomi LTD, a privately owned joint venture, produces a range of equipment for the oil and gas industry in Ghana. One of the venturers, Oman Pension Funds (OPF), who holds one-third of Gogomi LTD's ordinary shares, has decided to sell all of its holdings. This plan forms part of measures OPF is using to redirect focus of its investment strategy by replacing its equity assets with fixed-income holdings. OPF would therefore like to know the current value of its shareholdings to guide it during any negotiation with a potential buyer.

The following draft financial statements (together with the additional information) should be used to estimate the share value:

Draft statement of profit or loss of Gogomi LTD for the year ended 31 August 2024

	GH¢000
Revenue	115,500
Cost of sales	(80,300)
Gross profit	**35,200**
Selling and distribution	(12,300)
Administrative expenses	(8550)
Profit before tax	**14,350**
Tax	(2,030)
Profit after tax	**12,320**

Draft statement of financial position of Gogomi LTD as at 31 August 2024

	GH¢000
Assets	
Non-current assets:	
Properties	52,400
Plant and equipment	53,300
Current assets	35,300
Total assets	**141,000**
Equity and liabilities	
Capital and reserves	
Ordinary shares @ GH¢2 each	24,000
10% Irredeemable preference shares @ GH¢1.50 each	6,000
Retained earnings	57,500
	87,500
Non-current liabilities	38,080
Current liabilities	15,420
Total equity and liabilities	**141,000**

Additional information:

1) Included in properties is an office building whose fair value has been measured by a valuation specialist at GH¢25 million. This value compares to a book value of GH¢19.5 million. Plant is not yet adjusted for a required reversal of GH¢2 million impairment charge previously written off to profit or loss account against an item of plant.

On 28 August 2024, Gogomi LTD bought an item of equipment and paid GH¢15.2 million, net of 5% withholding tax, to the equipment dealer. Management have expensed the associated withholding tax (already paid to the local tax office) within the income statement.

2) Included in receivables is an amount of GH¢4.4 million owed by a customer who has fallen into an unexpected, serious financial difficulty. As a consequence, expert assessment indicates that Gogomi LTD will have to wait until 31 August 2025 to receive the full amount in a single payment.

3) Gogomi LTD's current ordinary dividend cover computed, based on the above draft accounts, is 4. Preference dividends have been fully paid.

4) A comparable quoted firm's price-earnings ratio and dividend yield are 7.2 and 4.52% respectively. No adjustment should be made to these ratios, if they are used in any computations.

5) Applicable cost of capital is 10%.

Required:
Determine a range of values to be placed on each ordinary share of Gogomi LTD using:

i) Net assets basis
ii) Price-earnings basis
iii) Dividend yield basis

(15 marks)

Note: *Draft profit after tax may be revised for items 1 and 2 in the additional information. However, none of these adjustments should affect dividends and tax expenses.*

b) For the purpose of consolidation, a parent must consolidate all controlled entities. However, there is an exemption that applies to investment entities.

Required:
Identify **FOUR** typical characteristics of an investment entity. **(5 marks)**

(Total: 20 marks)

QUESTION FIVE

a) As Financial Accountant of Kyenku PLC (Kyenku), you have received an email from the Chief Financial Officer (CFO) asking you to analyse and interpret the following key financial and nonfinancial metrics to assist prepare for an upcoming board meeting.

These metrics, which were autogenerated by Kyenku's robotic technology-based tool, are available for the last three (3) years of Kyenku, along with comparable ones for the average firm for 2024.

	2022	**2023**	**2024**	**Sector average 2024**
Gross profit margin	11.23%	11.98%	12.26%	12.12%
Profit (before tax) margin	4.41%	4.53%	3.49%	4.38%
Return on capital employed	4.00%	3.62%	3.62%	4.07%
Accounts receivables period	32 days	35 days	36 days	36 days
Inventory turnover (in times)	7.10	7.65	7.79	8.33
Acid test ratio	1.24	1.26	1.97	1.85
Debt/debt+equity	42.10%	46.67%	41.06%	35.59%
Times interest earned	2.34	2.55	2.46	3.03
Basic and diluted earnings per share (pesewas)	106	106	108	109
Net operating cash flows to dividend payment ratio	2.55	(1.2)	1.58	1.95
Direct green-house gas emissions (in tonnes)	50,800	61,000	61,600	-
Number of manufacturing sites	20	24	25	-
Employee satisfaction score (out of total score of 5)	3.9	4.5	4.4	4.1
Female representation (all-employees)	31%	37%	45.5%	40.1%
Gender pay gap	38.2%	38.1%	40.0%	41.4%

Required:
Using the above metrics, produce a suitable response memo to offer a detailed assessment of Kyenku's ***profitability***, ***liquidity,*** ***efficiency,*** ***gearing*** and ***investment*** along with some comments on its sustainability performance, over the last three years and in relation to the sector average. **(15 marks)**

b) Bepong Company LTD has decided to close down a production facility as result of a significant environmental concerns.

Required:
Detail disclosures required of Bepong Company LTD as a result of managing its climate-related risk. **(5 marks)**

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

Pato Group **Consolidated statement of cash flows for the year ended 31 December 2024**		
	GH¢	**GH¢**
Cash flows from operating activities		
Cash generated from operations (Note)	1,082,812	
Impairment in Jaritan (W7)	37,500	
Impairment reversal	2,500	
Interest paid (W1)	(47,500)	
Income tax paid (W2)	(182,700)	
Net cash inflow from operating activities		892,612
Cash flows from investing activities		
Purchase of property, plant and equipment (W3)	(1,013,450)	
Purchase of intangible asset	(22,000)	
Proceeds from sale of property, plant and equipment	135,000	
Dividends received from associate (W4)	113,850	
Disposal of Asanka Ltd net of cash disposed of ((437,512 x 75%) + 23,625) – 3,375)	348,384	
Net cash outflow from investing activities		(438,216)
Cash flows from financing activities		
Proceeds from share issues (495,000 + 112,500) – 315,000 + 45,000)	247,500	
Financing of Lease obligations (300,000 – 239,100)	(60,900)	
Dividends paid (W5)	(598,950)	
Dividends paid to non-controlling interest (W6)	(28,547)	
Net cash outflow from financing activities		(440,897)
Net increase in cash and cash equivalents during the year		13,500
Cash and cash equivalents at beginning of the year		32,625
Cash and cash equivalents at end of the year		**46,125**

Note: Reconciliation of profit before tax to cash generated from operations	
Profit before tax (729,225 + 93,150)	822,375
Impairment reversal	(2,500)
Impairment in Jaritan (W7)	(37,500)
Share of profits of associate	(127,575)
Finance cost	52,000
Profit on disposal of property, plant and equipment (135,000 – 126,000)	(9,000)
Depreciation charge	395,100
Increase in trade and other receivables ((170,325 + 31,275) – 200,025)	(1,575)
Employee benefit obligations (42,150 – 37,500)	4,650
Due to related parties	1,125
Decrease in trade and other payables ((118,800 – 6,750) – (90,000 + 19,012 – 11,250))	(14,288)
Cash generated from operations	**1,082,812**

Workings			
(1) Interest paid			
Cash (β)	47,500	B/d	6,750
C/d	11,250	CIS	52,000
	58,750		**58,750**
(2) Income tax			
Cash (β)	182,700	B/d	175,500
C/d	153,000	CIS (145,800 + 14,400)	160,200
	335,700		**335,700**
(3) Property, plant and equipment			
B/d	2,212,875	Disposal of sub	421,875
		Other disposals	126,000
Additions (β)	1,013,450	Depreciation charge	395,100
		C/d	2,283,350
	3,226,325		**3,226,325**
(4) Investment in associate			
B/d	404,550	Cash received (β)	113,850
CIS	127,575	C/d	418,275
	532,125		**532,125**
(5) Retained earnings			
Dividends in SCE (β)	598,950	B/d	1,518,975
C/d	1,491,750	CIS	571,725
	2,090,700		**2,090,700**

(6) Non-controlling interest			
Cash (β)	28,547	B/d	339,300
Disposal (437,512 x 25%)	109,378		
C/d	315,450	CIS	114,075
	453,375		**453,375**

W7
Impairment of Goodwill – Jaritan

	Goodwill	Net assets	Total
	GH¢	GH¢	GH¢
Carrying amount	67,500	180,000	247,500
Unrecognized non-controlling interest (67,500 x 40 / 60)	45,000		45,000
	112,500	180,000	292,500
Recoverable amount			230,000

Impairment loss = 292,500 – 230,000 = 62,500
Goodwill will be reduced by 60% of 62,500, i.e. 37,500.
Profit or loss will be charged with 37,500.

Note on Adjustment of Impairment of Goodwill in Jaritan

Additional information (i) of the question indicated that: "Pato owns 60% in Jaritan. The goodwill attributable to Pato arising on acquisition was GH¢67,500. The carrying value of Jaritan's identifiable net assets (excluding goodwill arising on acquisition) in the group consolidation financial statements is GH¢180,000 at 31 December 2024. The recoverable amount of Jaritan is expected to be GH¢230,000 and no impairment loss had been recorded up to 31 December 2023".

Based on this information, goodwill in Jaritan is impaired by GH¢37,500 given the lower recoverable amount of the subsidiary (GH¢230,000) as against the carrying value (GH¢292,500) of the subsidiary at the reporting date, 31 December 2024.

This means the consolidated profit or loss was debited (most likely operating expenses), and goodwill account also credited. To adjust, for the purpose of estimating operating net cash flow, we add back (i.e. credit) this impairment loss to profit before tax as it is a non-cash item.

However, the statement of financial position as at the end of 2024 and 2023, have goodwill conspicuously missing, even though it is said that goodwill at the reporting date of 2024 was even GH¢62,500 before the impairment review of Jaritan (which was purchased several years ago).

No account on the statement of financial position can therefore be identified to have been reduced by the impairment loss of GH¢37,500 in the absence of goodwill. The earlier impairment loss of GH¢37,500 initially expected to have been recognised is therefore added back to reflect the fact that no impairment loss of goodwill has been recognized in the accounts for the year 2024.

(Total: 20 marks)

EXAMINER'S COMMENTS

This question on consolidated cashflow statement was very unpopular and unexpected although the question was very straightforward. Few candidates could identify the effect of group transactions on the consolidated cashflow statement. Candidates appeared unprepared, and that reflected in the relatively poor responses to the question. Some candidates deviated from the question and produced format akin to consolidated statements of financial position rather than consolidated cash flow statements. Candidates who appeared on track struggled with the workings, and that impacted unfavourably on their mark scores. It is recommended that the topic on cash flow statement be treated thoroughly by tutors and candidates. Candidates are advised to prepare adequately and solve past questions before taking the paper.

QUESTION TWO

a)

PPE Revaluation	**GH¢'000**
Market (fair) value	151,200
Carrying amount	(144,000)
Revaluation gain	7,200

Dr Property, plant and equipment (151,200 – 144,000)	7,200	
Cr Other comprehensive income	7,200	

Deferred tax on revaluation (7,200 × 25%) 1,800

Dr Other comprehensive income	1,800	
Cr Deferred Tax		1,800

Current tax

Current tax credit:	**GH¢'000**	
DR Current tax asset (23,040 x 25%)	5,760	
CR Income tax (P/L)		5,760

Deferred tax

Deferred tax liability:

	Accounting Carrying Amount	**Tax base**	**Temporary difference**
	GH₵'000	**GH¢'000**	**GH¢'000**
Property, Plant and Equipment	221,280 (214,080 + 7,200)	150,480	70,800

Taxable Temporary Difference:	
Carrying amount	221,280
Tax base	(150,480)
	70,800

Deferred tax liability @ 25% x 70,800 = 17,700

Calculation of deferred tax in profit or loss:

	GH¢'000
Net deferred tax liability b/d	13,080
Charge to other comprehensive income ((Revaluation) 7,200 @ 25%)	1,800
Charge to profit or loss (balancing figure)	2,820
Net deferred tax liability c/d (from above)	17,700

Statement of financial position as at 30 June 2024 (Extract)

	GH¢'000
PPE (214,080 + 7,200)	221,280
Current asset	
Current tax asset	5,760
Non-current liabilities	
Deferred tax liability	17,700
Current liabilities	
Current tax payable	-

Statement of profit or loss account for the year ended 30 June 2024 (Extract)

	GH¢'000
Gross Profit	189,000
Distribution costs	(200,520)
Loss before tax	(11,520)
Income tax expense (5,760 - 2,820)	2,940
Loss for the year	(8580)

(6 marks)

b)

The date of transition is 1 October 2022 (30 September 2022 closing figures).

Total adjustment to opening equity at that date is:	GH¢'000
Property, plant and equipment (fair value as deemed cost) (88,000 – 80,400)	7,600
Capitalised staff development costs	(4,000)
Borrowing costs incurred for asset under construction (exemption available)	0
Provision for court case – reverse liability	480
	4,080

(4 marks)

c)

1) Ayariga PLC is a related party of Mireku LTD as it has significant influence over Mireku LTD.
2) Ahmed PLC is a related party of Mireku LTD as it is jointly controlled by Ayariga PLC that has significant influence over Mireku LTD.
3) Alex is key management personnel of Mireku LTD and therefore a related party.
4) Adorko is a close family member of Alex (whether married or not) who is key management personnel of Mireku LTD and is therefore also a related party.
5) The twins are also related parties of Mireku LTD as they are also close family of key management personnel, even though they are minors.
6) Ayine LTD is **NOT** a related party of Mireku LTD as Mireku does not have any influence over it, despite the fact that it is also a key customer.
7) Dennis is also a related party of Mireku LTD as a patron/sponsor of close family of key management personnel of Mireku.
8) Jinapor LTD is **NOT** a related party of Mireku LTD. If Dennis had significant influence over it, it would be considered a related party. ***(6 marks)***

d) Hyperinflation occurs when the general price level of goods and services in an economy increases rapidly, often causing the local currency to lose value. The International Accounting Standard (IAS) 29, "Financial Reporting in Hyperinflationary Economies," provides guidance on how entities should account for transactions and prepare financial statements in such economies.

Indications of a Hyperinflationary Economy

The following are indications that an economy is hyperinflationary:

1) **High inflation rates:** The cumulative inflation rate over three years approaches or exceeds 100%.
2) **Rapid increase in prices**: Prices of goods and services increase rapidly, often causing the local currency to lose value.
3) **Decrease in purchasing power:** The purchasing power of the local currency decreases significantly over time.
4) **Widespread rejection of local currency:** The local currency is no longer widely accepted as a medium of exchange.
5) **Government regulations and controls:** The government imposes price controls, rationing, or other regulations to manage inflation.

(4 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question on selected accounting standards (IFRS) was a difficult question for most candidates with some standards not being too familiar for candidates. The question focused on four standards: *IAS I2: Income Taxes; IFRS 1: First Time Adoption of IFRS; IAS 24: Related Party Disclosures* and *IAS 29: Financial Reporting in Hyperinflationary Economies.* Most candidates attempted the question and scored low marks under IAS 24 and IAS 29. However, most of them were unable to calculate the deferred tax regained under IAS 12 and were unable to show the adjustment required at the transition date to IFRS 1.

Overall, performance was low and below expectations. It seems candidates were unfamiliar with these standards. Over 90% of the candidates scored below ten marks out of the twenty marks allocated to this question. Majority of the candidates wrote theories instead of showing calculations and relevant entries with reference to the standards. Overall, question two was partly answered. Some candidates did not attempt this question at all. ICAG should emphasise revision on standards to enhance better appreciation by candidates.

QUESTION THREE

a) ***IFRS 13: Fair Value Measurements*** states that, when measuring fair value, the objective is to estimate the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (i.e. to estimate an exit price).

A fair value measurement assumes that the transaction takes place in the principal market (the market with the greatest **market rather than firm-specific** volume and level of activity for the asset or liability) for the asset or liability.

Only in the absence of a principal market does the entity assume that the transaction takes place in the most advantageous market (the market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transportation costs).

Djato Autos PLC (DA) should therefore base its measurement of fair value on prices in Southern zone. Pricing is taken from this market even though DA does not normally transact in that market and it is not the most advantageous market.

Therefore, fair value per car is GH¢24,900 (GH¢28,000 less GH¢3,100), considering transportation costs but not transaction cost, even though DA does business mostly in Northern zone and could maximize its net proceeds in that market (GH¢27,000 - GH¢3,500 = GH¢23,500).

At 31 August 2024, the total value of all 300 cars should be measured at GH¢7.47 million (GH¢24,900 x 300).
DA would only be allowed to use fair value inputs from the Northern zone which represents the most advantageous market if and only if the company is unable to access the principal market (that is, the Southern zone).

In that case, fair value per car would be GH¢25,000 (GH¢27,000 less GH¢2,000).

(5 marks)

b) An intangible asset from a development activity should only be recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. [IAS 38 para 21]

To qualify for capitalisation as development cost, the asset should generate probable future economic benefits demonstrated by the existence of a market for the asset's output and the usefulness of the asset if it is to be used internally. [IAS 38 para 57(d)]. Specifically, development costs should be capitalised as an intangible asset if all of the following criteria are met [IAS 38 para 57]:

i) The technical feasibility of completing the asset so that it will be available for use or sale.
ii) The intention to complete the asset and use or sell it.
iii) The ability to use or sell the asset.
iv) The asset will generate probable future economic benefits and demonstrate the existence of a market or the usefulness of the asset if it is to be used internally.

v) The availability of adequate technical, financial and other resources to complete the development and to use or sell it.
vi) The ability to measure reliably the expenditure attributable to the intangible asset.

Development cost for the limited market use
All development criteria must be met to start capitalising development costs. A strong indication that an entity has met all of the above criteria is when it obtains regulatory authority for final approval. Kwanpa Pharma (KP) should capitalise development costs for this drug when the criteria in IAS 38 are met, this is likely to be on regulatory approval.

KP will need to assess the capitalised costs for any indication of impairment at each reporting date [IAS 36 para 9], and to test for impairment annually before it is available for use. [IAS 36 para 10].

The concern over the potential market might be a trigger for impairment.

The new functionality development expenditure
KP should not capitalise the expenditure that it incurs to add new functionality, because new functionality will require filing for new regulatory approval. This requirement implies that technical feasibility of the modified device has not been achieved

(5 marks)

c)

Environmental Concerns:
The Project's extensive land clearing raises significant concerns about deforestation and habitat destruction. Biodiversity loss could be substantial, impacting various plant and animal species. Additionally, the project's water-intensive nature poses a risk to local water supplies, potentially affecting both ecosystems and human communities. Pollution, particularly from chemicals used in the extraction process, could contaminate local water bodies, endangering aquatic life and human health.

Social Impacts:
Local communities face the threat of displacement, disrupting their traditional lifestyles and social structures. Ensuring fair compensation and support for displaced populations is crucial. Moreover, the project poses health risks, including respiratory issues from dust and exposure to hazardous chemicals. While the project promises economic benefits, these may not be evenly distributed, potentially exacerbating existing economic disparities.

Governance Challenges:
Ensuring regulatory compliance is challenging, given potential enforcement weaknesses. Effective governance requires transparency and accountability to prevent corruption and mismanagement. Regular public reporting and community engagement are vital to build trust and ensure that the operations benefit all stakeholders.

(10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

On the question on fair value measurement, which seemed to be a standard one but candidates' appreciation of *IFRS 13: Fair Value Measurement* was exposed. Most of the candidates were able to indicate the basic principle with regards to the principal and most advantageous markets. However, candidates often concluded by interchanging the most advantageous market as the principal market. In computing the fair value, more than 50% of candidates considered transaction cost which resulted in most candidates using the net benefit for the Northern zone to compute the fair value.

For the question on intangible assets, majority of candidates were able to indicate at least two of the qualifying criteria and hence earned some marks. Most candidates concluded that the limited market was enough basis to not capitalise the drug's development cost. There was no mention of the possibility of impairment due to potential market difficulties. Most candidates were however able to indicate that the new functionality cost should be expensed.

The third part of the question on sustainability and ESG was the favorite for most of the candidates that attempted this question. A good number of candidates indicated the issues under the respective ESG areas. However, some candidates could not differentiate between social impacts and environmental concerns.

QUESTION FOUR

a) i) **Net asset basis**

Net asset basis value per share

= [Total assets – total liabilities (preference share capital)] divided by number of ordinary shares issued

Revision of statement of financial position

	GH¢000
Properties (52,400 + (25,000 – 19,500))	57,900
Plant and equipment (53,300 + 2000 + (5/95 x 15,200))	56,100
Current assets (35,300 + (4,400/1.1) – 4,400)	34,900
	148,900
Current liabilities	(15,420)
Non-current liabilities	(38,080)
Net assets attributable to all shareholders	95,400
Less: Preference shares	(6,000)
Net assets attributable to ordinary shares	**89,400**

Net assets value per share = GH¢89,400,000/(24,000,000/2)

= GH¢7.45

ii) **Price-earnings basis**

Value per share	= Earnings per share of Gogomi x adjusted price/earnings of a similar quoted firm
Earnings per share	= (PAT – preference dividends) / number of issued ordinary shares
	= GH¢14,120,000 (see below)/12,000,000
	= GH¢1.18
Value per share	= GH¢1.18 x 7.2
	= GH¢8.5

Revision of profit after tax

	GH¢000
Profit after tax (as given)	12,320
Adjustments:	
Impairment reversal	2,000
Withholding tax (5/95 x 15,200)	800
Credit loss ((4,400/1.1) – 4,000)	(400)
Revised profit	14,720
Less: Preference dividend (10% x 6,000)	(600)
Earnings attributable to ordinary shares	**14,120**

iii) **Dividend yield basis**

Value per share	= DPS of Gogomi / Dividend yield of the similar quoted firm
DPS	= Ordinary dividends / number of ordinary shares
Ordinary dividends	= (Profit after tax of Gogomi (unadjusted) – Preference dividends) / Dividend cover
	= (GH¢12,320,000 – GH¢600,000)/4
	= GH¢2,930,000
DPS	= GH¢2,930,000/12,000,000
	= GH¢0.2442
Value per share	= GH¢0.2442/0.452
	= GH¢5.40

Range of values per share

Thus, the value to be placed on each ordinary share ranges from GH¢5.40 to GH¢8.5.

(50 ticks @ 0.3 each for 15 marks)

b) ***Characteristics of an investment entity***

An investment entity has the following typical characteristics:

- It has more than one investment
- It has more than one investor
- It has investors that are not related parties of the entity
- It has ownership interests in the form of equity or similar interests

A parent must determine whether it meets the investment entity definition by considering whether it demonstrates the above characteristics. However, the absence of any of the typical characteristics may not necessarily disqualify an entity from being classified as an investment entity. Each case should be judged on its merit. ***(5 marks)***

(Total: 20 marks)

EXAMINER'S COMMENTS

The first part of the question was a straightforward one which required demonstration of an understanding of business valuation. The question was well attempted by almost all candidates. Candidates had knowledge of the formulae to use to compute the value per share under each method and stated them clearly. They however could not adjust the earnings correctly. They had a challenge computing the revised profit after tax. Candidates also had a challenge of computing the ordinary dividends.

The second part of the question on typical characteristics of an investment entity was poorly answered by almost all candidates. Only exceptional candidates were able to answer correctly.

QUESTION FIVE

a) To: The Chief Finance Officer, Kyenku PLC
From: Financial Accountant
Date: 31 December 2024
Subject: Assessment of financial and sustainability performance of Kyenku PLC

Introduction
This report provides a detailed analysis of the financial and sustainability performance of Kyenku Plc over the last three (3) years ending in 2024 and in relation to its peers during 2024. The analysis specifically employs various financial and non-financial ratios to shed light on the company's profitability, efficiency, liquidity, gearing, investor-based ratios and sustainability. The report should be read along with the attached appendix.

Profitability
Kyenku's profitability is assessed using three different metrics: gross margin, profit before tax margin and return on capital employed. The gross profit margin has been on an increasing trend, rising from 11.23% in 2022 to 12.26% in 2024. Notably, Kyenku's current gross margin has also toppled that of its peers. While it is not readily clear what the cause of these increments may be, it is safe to suggest that the Kyenku is likely to have experienced improved control over direct operational costs over the last three years and managed these costs better than its competitors in the current year. Regarding profit (before tax) margin, the trend has not been as consistent as the margin rose marginally between the first two years but fell dramatically from 2023 to 2024. The drop was so drastic that Kyenku's current period's before tax profit margin is well below the mean margin. This sharp contrast in trends and sector comparisons shown by the gross margins and the profit (before tax) margins may suggest that either Kyenku has been less impressive in managing its overheads or it probably classifies costs differently from its peers between cost of sales and other operational costs. Regardless given its lower overall operating margin, Kyenku appears to have managed operational costs less efficiently. Kyenku's return on capital employed, which reflects how efficient Kyenku used its assets to generate returns, fell between the first two years but remained unchanged between the last two. But similar to the profit before tax margin, Kyenku's current year's return on capital employed is significantly below the average return. The implication is that Kyenku would be seen by providers of long-term capital to have been less efficient and less profitable over the last three years even though

the return percentage remained unchanged between 2023 and 2024. More worryingly, competing firms currently return more monies on every cedi amount of the book value of long-term capital.

Efficiency

The company's efficiency looks at how well it has managed its working capital items and, in this analysis, is assessed using two measures: accounts receivable days and inventory turnover. The accounts receivables days of Kyenku have increased throughout the three years, rising by 4 days between 2022 and 2024. The current collection period meanwhile is at par with the sector average. The rising receivables days imply that the company is now taking longer period to recover its debts even though the reduced efficiency has not made Kyenku any worse than how long competitors take to do their collection. Kyenku's inventory turnover has seen a noticeable improvement, increasing from 7.10 times in 2022 to the current 7.79. This provides an indication that Kyenku is getting quicker in striking and completing sales deals, as cost of sales could cover average inventory approximately 8 times during 2024. Despite good efforts by Kyenku, the company's current inventory turnover is still not good enough to outstrip the efforts of its peers. The large turnover numbers may suggest that the industry is characterized by high inventory conversion rates.

Liquidity

Liquidity measures look at the readiness of an entity to pay off its short-term commitments as they fall due. Acid-test ratio has been used to examine Kyenku's liquidity positions during the assessment period. The ratio shows how sufficient the entity's near-cash current assets are in meeting its short-term liabilities. Kyenku's acid-test ratio has consistently and significantly increased over the three-year period, indicating that the company is in a good position to meet all its pressing obligations. Currently, the company's current assets without considering inventories can be used to settle its current obligations as nearly as two times. More impressively, Kyenku's 2024's acid-test ratio of 1.97 puts the company well above its peers as an average company can avail 1.85 of quick assets to meet its near-term obligations.

Gearing

Gearing ratios are used to assess the mix of debt and equity constituents within an entity's capital structure. The relationship established can help to estimate the amount of financial risk to which the company's investors and lenders become exposed. Kyenku's gearing is appraised using capital gearing and times interest earned. Kyenku's capital gearing has declined from 42.10% to 41.06% after increasing initially between 2022 and 2023. It is not clear what could be behind this inconsistent behaviour of the company's gearing, however it would be good for prediction purpose if some consistency and predictability could be found. The overall decline in gearing shows that Kyenku's level of financial risk is now lower. But it seems Kyenku is still relatively basking in too much debt given that lenders in peer companies currently provide about 36% of total long-term capital, which represents some six (6) percentage points below Kyenku's current gearing level. The same inconsistent pattern has been exhibited by the income-based measure of gearing as times interest earned initially increased from 2.34 to 2.55 before reducing to 2.46. So, there has been improvement in how many times finance costs are earned if 2022 is set as the base year. This is exactly in keeping with the falling gearing ratio.

Investor ratios

The company has generally witnessed an increased earnings per share over the assessment period. The company is likely not to have had any dilutive potential ordinary share instruments through the assessment years. This improvement seen is likely to be met with favourable market reaction especially if the improved indicator was driven by underlying performance. In fact, the increases in earnings per share appear a somewhat surprising given the deteriorating profitability. Unless the improvement resulted from improved earnings which in this case could result through lower allocations to taxes, preference dividends, and non-controlling interests, the better earnings per share would be down to share repurchase or consolidation. If the share adjustments were the triggers, any attracted plaudits for the increase might not be significant. Kyenku's cash-based dividend coverage has reduced from 2.55 to 1.58 even though the company overturning the 2023 negative operating cash flows to achieve a positive coverage in 2024 deserves a commendation. The decline suggests that the company may not provide as much guarantee of a sustainable dividend payment going forward. But the ratio falling below that of peer companies makes it even more worrying.

Sustainability
Sustainability has become pivotal to many stakeholders. How a company manages its social and environmental risks and ceases sustainability-related opportunities can prove to be a game changer within the current corporate landscape. Kyenku's direct greenhouse gas emissions have consistently increased. But such increment does not consider the expanded scope of operations as the number of the company's manufacturing sites has also increased. Hence, a better gauge of Kyenku's green footprints could be obtained if the emissions were considered relative to the number of emitting sites to determine emission intensity. After estimating the relative emissions *(see Note below)*, it could be seen emission levels have broadly decreased. This indicates a reduced exposure to climate-related risk and enhanced reputation. A look at the trends in the company's employee approval ratings and its female representation also paint a good picture about its social profile. Both employee satisfaction score and the proportion of female workers have seen clear improvement, with both indicators placing Kyenku's social standing above its peers'. Having happier and more inclusive employee base would not only provide grounds for attracting and retaining more competent hands but also increase the value of the intangible resources of Kyenku. Unfortunately, however, the increased number of women at Kyenku has not translated into pay parity between the two genders. Even though Kyenku has a better pay gap than its competitors, that Kyenku's gap has widened from 38.2% in 2022 to 40% in 2024 after coming down a bit in the intervening year should be a worry especially considering the increment in female representation. This could be probably due to putting more female workers on low paying roles. If this is not reverse, the bad picture painted by the now wider gap could neutralize the goodwill created through the other non-financial indicators.

Conclusion
Generally, Kyenku's financial assessment paints a mixed picture while its sustainability management has been good to a great extent. Kyenku's poor profitability and efficiency could be due to the company sacrificing short-term prosperity for long-term sustainability. In balance, Kyenku appears to be on good tracks especially if the improvements in its liquidity and gearing are considered and if the company plausibly tightens things up a bit regarding how it manages its operational costs and handles worker pay.
SIGNED

(10 marks for financial analysis;
3 marks for nonfinancial analysis; 2 marks for introduction, conclusion and presentation)

Note

	2022	2023	2024
Emission intensity	50,800/20 =2540	61,000/24 =2541	61,600/25 =2464

b) Disclosures required of Bepong Company LTD as a result of managing its climate-related risk.

- **Governance:**
  Companies need to disclose their governance processes, controls and procedures for monitoring, managing and overseeing sustainability-related risks and opportunities.

- **Strategy:**
  They should outline their strategy for managing sustainability-related risks and opportunities, including their approach to climate-related risks.

- **Risk Management:**
  Companies must disclose how they identify, assess, prioritize and monitor sustainability-related risks and opportunities, including those related to climate change.

- **Metrics and Targets:**
  They should report on their performance related to sustainability-related risks and opportunities, including progress towards any targets they have set.

- **Impact on Business, Strategy, and Financial Planning:**
  Companies need to disclose the actual and potential impacts of climate-related risks and opportunities on their business, strategy and financial planning.

- **GHG Emissions:**
  Some jurisdictions, like the SEC in the US, may require companies to disclose greenhouse gas emissions metrics (Scopes 1 and 2) and third-party verification, as well as data on expenditures related to severe weather events, carbon offsets and renewable energy credits.

- **Transition Plans:**
  Companies may also be required to disclose their transition plans to a low-carbon economy, including scenario analysis and the use of an internal carbon price.

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The first part of the question required candidates to prepare a memo analysing the company's profitability, liquidity, efficiency, gearing and investment based on given ratios. The question was standard question and generally straightforward. Since the ratios were provided, most candidates found it relatively easy to attempt, and a majority scored more than half of the marks allotted. However, a few candidates scored below half of the allotted marks, indicating possible challenges in understanding how to structure their analysis or link their interpretations to sector benchmarks. A key observation was that candidates spent too much time on this question, which may have impacted on their ability to complete other sections of the exam effectively.

The second part of the question was on Climate-Related Risk Disclosures. This section required candidates to detail the required disclosures for a company managing climate related risks, based on IFRS S2. The question was straightforward, but most candidates struggled to answer it correctly. Only a few candidates provided the correct disclosures, indicating either a gap in knowledge of IFRS S2 or insufficient preparation on this specific topic.

CONCLUSION

As indicated earlier, overall, candidates did not perform better than previous diet. The results provide some indication of ill preparation and lack of appreciation of accounting standards.