

**JULY 2025 PROFESSIONAL EXAMINATIONS
CORPORATE REPORTING (PAPER 3.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

STANDARD OF THE PAPER

The paper was generally a very moderate paper compared to previous diets. The questions were based on the syllabus albeit some of the questions were not the usual questions students 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 exam's diet was poor. Candidates who performed well demonstrated a clear understanding of the subject matter. The poor level of preparedness of some candidates is reflected in their poor performance. Some candidates did not attempt all the questions.

QUESTION ONE

The following consolidated financial statements relate to Akandoh Group (Akandoh), a public limited company:

Statement of Financial Position as at 31 May

Non-current assets	2025	2024
	GH¢'million	GH¢'million
Property, Plant and Equipment	1,916	1,624
Goodwill	30	20
Investment in associate	<u>96</u>	<u>78</u>
	<u>2,042</u>	<u>1,722</u>
Current assets		
Inventories	308	336
Trade receivables	264	224
Financial assets at fair value through profit or loss	32	-
Cash and cash equivalents	<u>316</u>	<u>96</u>
	<u>920</u>	<u>656</u>
	<u>2,962</u>	<u>2,378</u>
Equity attributable to owners of the parent		
Share capital (GH¢1 ordinary shares)	1088	944
Retained earnings	376	330
Revaluation surplus	<u>202</u>	<u>108</u>
	<u>1,666</u>	<u>1,382</u>
Non-controlling interests	<u>168</u>	<u>56</u>
	<u>1,834</u>	<u>1,438</u>
Non-current liabilities		
Long-term borrowings	760	640
Deferred tax liability	<u>76</u>	<u>52</u>
	<u>836</u>	<u>692</u>
Current liabilities		
Trade and other payables	220	196
Interest payable	16	8
Current tax payable	<u>56</u>	<u>44</u>
	<u>292</u>	<u>248</u>
	<u>2,962</u>	<u>2,378</u>

Statement of Profit or Loss and Other Comprehensive Income for The Year Ended 31 May 2025

	GH¢'million
Revenue	1,912
Cost of sales	(1,268)
Gross profit	644
Other income	12
Administrative expenses	(424)
Finance costs	(32)
Share of profit of associate	<u>24</u>
Profit before tax	224
Income tax expense	(68)
Profit for the year	156
Other comprehensive income (items that will not be reclassified to profit or loss):	
Gains on property revaluation	116
Share of other comprehensive income of associate	16
Income tax relating to items of other comprehensive income	(34)
Other comprehensive income for the year, net of tax	<u>98</u>
Total comprehensive income for the year	<u>254</u>
Profit attributable to:	
Owners of the parent	136
Non-controlling interests	<u>20</u>
	<u>156</u>
Total comprehensive income attributable to:	
Owners of the parent	230
Non-controlling interests	<u>24</u>
	<u>254</u>

The following information relates to the consolidated financial statements of Akandoh:

- i) During the period, Akandoh acquired 60% of a subsidiary. The purchase was effected by issuing shares of Akandoh on a 1 for 2 basis, at their market value on that date of GH¢2.25 per share, plus GH¢52 million in cash.

A statement of financial position of the subsidiary, prepared at the acquisition date for consolidation purposes, showed the following position:

	GH¢'million
Property, Plant and Equipment	184
Inventories	40
Trade receivables	32
Cash and cash equivalents	<u>16</u>
	<u>272</u>
Share capital (GH¢1 shares)	160
Reserves	80
Trade payables	24
Income taxes payable	<u>8</u>
	<u>272</u>

- ii) An impairment test conducted at the year-end resulted in a write down of goodwill relating to another wholly owned subsidiary. This was charged to cost of sales. Group policy is to value non-controlling interests at the date of acquisition at the proportionate share of the fair value of the acquiree's identifiable assets acquired and liabilities assumed.
- iii) Depreciation charged to the consolidated profit or loss amounted to GH¢88 million. There were no disposals of Property, Plant and Equipment during the year.
- iv) Other income represents gains on financial assets at fair value through profit or loss. The financial assets are investments in quoted shares. They were purchased shortly before the year end with surplus cash, and were designated at fair value through profit or loss as they are expected to be sold shortly after the year end. No dividends have yet been received.
- v) Included in 'trade and other payables' is the GH¢ equivalent of an invoice for 204 million shillings for some equipment purchased from a Kenyan supplier. The asset was invoiced on 5 March 2025, but had not been paid for at the year-end, 31 May 2025. Exchange gains or losses on the transaction have been included in administrative expenses.

Relevant exchange rates were as follows:

Shillings to GH¢1

5 March 2025 6.8

31 May 2025 6.0

- vi) Movement on retained earnings was as follows:

	GH¢m
At 31 May 2024	330
Profit attributable to the parent	136
Dividends paid	<u>(90)</u>
At 31 May 2025	376

Required:

Prepare a Consolidated Statement of Cash Flows for Akandoh for the year ended 31 May 2025 in accordance with *IAS 7: Statement of Cash Flows*, using the indirect method.

(Total: 20 marks)

QUESTION TWO

- a) Goldkey Properties (Goldkey) is a leading real estate company dedicated to delivering innovative, high-quality property solutions across residential, commercial and property management sectors. It is currently preparing its financial statements for the year ended 31 May 2024.

On 30 September 2023, Goldkey and the Council of Institute of Chartered Accountants, Ghana (ICAG) entered into a contract to build a 4 storey auditorium for ICAG.

Below is a summary of the terms and conditions of the agreement to construct the property:

- i) ICAG paid a non-refundable deposit of GH¢4.8 million to Goldkey and Goldkey began work on the construction on 1 December 2023.
- ii) ICAG will make the following payments:
GH¢6.4 million on 31 May 2024 when 30% complete.
GH¢6.4 million on 30 November 2024 when 60% complete.
GH¢8.8 million on 31 May 2025 on completion and transfer of the facility.
- iii) There is no significant financing component in the contract, and the project is expected to be completed within 18 months in compliance with ICAG's instructions. If the facility is not completed and transferred to ICAG by 31 May 2025, then the final payment will be reduced by GH¢800,000 for every complete month after 31 May 2025.

The management of Goldkey have made the following additional estimates:

- Plant purchased by Goldkey for GH¢12.8 million on 1 December 2023 would be used exclusively on the contract with ICAG until its completion, then used on other contracts. At the date of purchase, the estimated useful life of this plant was five years.
- Goldkey will incur material and direct labour costs of GH¢960,000 per month to fulfil the contract with ICAG. The costs will continue at this rate until the facility is completed. There are no inventories of unused materials at any time.

Materials which had been purchased for use on the contract with ICAG were damaged due to the negligence of Goldkey's employees. This resulted in Goldkey incurring a one-off additional cost of GH¢1.6 million during March 2024 to rectify this damage. As a result, Goldkey now expects the facility to be transferred to ICAG by 15 July 2025.

The contract is expected to be profitable overall. On 31 May 2024, the contract was confirmed to be exactly 30% complete, so ICAG made the payment due on this date. ICAG is reliably expected to make the payment due under the contract on 30 November 2024 on this date.

Required:

In accordance with *IFRS 15: Revenue from Contracts with Customers*, show how the transactions described should be accounted for in the financial statements of Goldkey for the year ended 31 May 2024. **(8 marks)**

- b) Zabzugu, a parent company had 6 million, GH¢1 fully paid ordinary shares outstanding on 1 June 2024. On 1 October 2024, the company made a consolidation of existing shares in issue (i.e. a reverse share split) at nominal value, on a 2 for 3 basis. There was no special dividend, share repurchase or other outflow of resources. Having completed the consolidation of shares, a new share issue for 600,000 shares was made through an offer for sale at the market price of GH¢1.55 per share. The allotment was made on 1 March 2025 and the proceeds were due on 1 April 2025.

The company's (summarised) statement of profit or loss for the year ended 30 June 2025 as published is shown below:

	GH¢'000
Revenue	15,740
Cost of sales and expenses	<u>(16,060)</u>
Loss before interest and tax	(320)
Finance cost	<u>(128)</u>
Loss for the year	(448)
 Profit/(loss) attributable to:	
Owners of the parent	(478)
Non-controlling interests	<u>30</u>
	<u>(448)</u>

The company also had in issue GH¢500,000 of 5% cumulative redeemable preference shares throughout the year ended 30 June 2025.

Required:

In accordance with *IAS 33: Earnings Per Share*, calculate the basic earnings per share figure for the year ended 30 June 2025. **(5 marks)**

- c) You are the Director of Finance at Gyampoh LTD and a Chartered Accountant. You are finalising the financial statements for the year ended 30 September 2024. There is a provision of GH¢500,000 shown in the draft statement of financial position which relates to outstanding lawsuit for the supply of faulty products, prior to the year end, by Gyampoh LTD to a number of customers. This amount has been recognised as a provision based on advice from Gyampoh LTD's lawyers that the claims are very likely to succeed within the next six months, which has led to some adverse publicity. The products were withdrawn in August 2024.

Since recognising the above provision, Gyampoh LTD discovered that there are additional 50 faulty products still in circulation. Gyampoh LTD's lawyers estimated that for each product GH¢350 would need to be paid.

During the year, Gyampoh LTD started offering a one-year repair warranty with its luxury products. If minor repairs were required for all the relevant goods sold the cost would be GH¢65,000, compared to GH¢157,000 if major repairs were required. Gyampoh LTD estimates that 20% of the goods sold will require minor repairs and 5% will require major repairs.

No provision was recognised in respect of the warranties for the year ended 30 September 2024 as no goods had been returned by this date.

Required:

In accordance with **IAS 37: Provisions, Contingent Liabilities and Contingent Assets**, show the accounting treatment of the above transactions in the financial statements of Gyampoh LTD. **(4 marks)**

- d) The objective of **IAS 41: Agriculture** is to establish standards of accounting for agricultural activity – the management of the biological transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets).

Required:

State the provisions of IAS 41 regarding **recognition** and **measurement** of biological assets and agricultural produce in the preparation and presentation of financial statements. **(3 marks)**

(Total: 20 marks)

QUESTION THREE

- a) In 2024, Afariwaa Renewables PLC (AR) signed an agreement to partner with another clean energy powerhouse, Mankralo Wind Power PLC (MWP), to carry out its Bono and Ahafo offshore wind development projects (referred hereafter as BA Projects). Both energy companies will continue to drive the delivery of these flagship projects. BA Projects are expected to be capable of producing wind turbines that can power up to 500,000 Ghanaian homes with green electricity.

The contractual arrangement between the two parties specifies the following aspects of the arrangement:

- MWP is to acquire a 30% stake in the landmark renewable energy projects while AR, with a 70% share, will be in charge of development, construction and operation throughout the life cycle of the projects. Each party will appoint three directors and unanimous consent is required for all resolutions to be passed.
- Under the terms of the arrangement, AR and MWP have agreed to purchase all the output (i.e. the total power the wind turbines can generate) produced by BA Projects in a ratio of 7:3 for onward transmission over their own electric grids.
- Output from the BA Projects is not permitted to be sold to any third parties, unless this is approved by the two parties. But in any case, such external sales are expected to be very rare and cannot exceed six percent in volume and value. The price of the output sold to the parties to be set by both parties at a level that is designed to ensure that BA Projects operate at a break-even level.

Required:

In line with **IFRS 11: Joint Arrangements**, advise the directors of AR on how to account for BA Projects. **(5 marks)**

- b) Akorabo Wares PLC (AW) has identified seven (7) divisions as operating segments. The following information is available in relation to the revenue, profit/loss and assets of these segments and other businesses for the year to 31 October 2024:

Operating Segment	External sales GH¢000	Inter-segment sales GH¢000	Profit/(Loss) GH¢000	Assets GH¢000
Metals	3,500	6,200	1,560	6,350
Farming equipment	2,990	0	(390)	3,300
Home appliances	2,450	0	(110)	2,960
Furniture	3,560	950	250	4,330
Plumbing materials	1,600	1,100	310	3,240
Glassware	4,880	3,970	1,080	7,600
Sporting goods	<u>3,940</u>	<u>0</u>	<u>(130)</u>	<u>4,980</u>
	22,920	12,220	2,570	32,760
Other businesses	<u>5,600</u>	<u>0</u>	<u>940</u>	<u>6,100</u>
	<u>28,520</u>	<u>12,220</u>	<u>3,510</u>	<u>38,860</u>

Management has determined that the operating segments do not have similar economic characteristics and share a majority of the aggregation criteria of IFRS 8. Both 'Metals' and 'Plumbing materials' segments did not meet the quantitative thresholds in the previous year 2023.

Required:

In accordance with *IFRS 8: Operating Segments*, identify and justify with suitable computations which of the segments should be deemed as reportable segments of AW for the current period. **(5 marks)**

- c) Sustainability reporting has developed and evolved over the past 30 years. A number of organisations have developed frameworks for reporting on sustainability matters.

Required:

Discuss the role of the following in establishing standards for reporting on sustainability matters:

- Global Reporting Initiative (GRI).
- The Sustainability Accounting Standards Board (SASB).
- The Taskforce on Climate-Related Financial Disclosures (TCFD).

(10 marks)

(Total: 20 marks)

QUESTION FOUR

- a) In recent times, many Ghanaian businesses have had to navigate their way through the economic ravages of rising geopolitical tensions, global health crises, depressed local macroeconomy and disrupted supply chains. These harsh business conditions have combined to render several corporate balance sheets unhealthy.

Kwankora LTD, a large pharmaceutical company in Ghana, is one of such businesses to have been badly affected. Despite multiple attempts to agree on a scheme to carry out an internal balance sheet clean-up, special resolution could not be reached during any of these negotiations. So, the directors have now resolved to set up a new company, Bitita LTD, to take over Kwankora LTD. Below is the latest statement of financial position of Kwankora LTD as at 31 August 2024.

Summarised Statement of Financial Position of Kwankora LTD as at 31 August 2024		GH¢000
Non-current assets		
Tangible assets		11,050
Intangible assets		<u>2,330</u>
		13,380
Current assets		
Inventories		3,320
Trade receivables		1,880
Cash at bank		<u>960</u>
		6,160
Total assets		<u>19,540</u>
Equity and liabilities		
Ordinary shares (GH¢1 each)		12,000
Preference shares (GH¢1 each)		4,500
OCI		500
Retained earnings		<u>(6,300)</u>
		10,700
Non-current liabilities		
12% Loan Notes		<u>5,000</u>
Current liabilities		
Trade Payables		<u>3,840</u>
Total equity and liability		<u>19,540</u>

The terms of the external reconstruction are provided below:

- 1) The new company to be formed to take over all assets (except cash) and liabilities of Kwankora LTD as at 31 August 2024.
- 2) 4 million ordinary shares of GH¢2.50 each in Bitita LTD, credited as GH¢1.50 per share paid up, to be issued to the liquidator of Kwankora LTD for the benefit of Kwankora LTD's ordinary shareholders who have agreed to pay up the balance of GH¢1.00 per share immediately after the reconstruction.
- 3) 2 million preference shares of GH¢2 of Bitita LTD, credited as GH¢1.80 per share paid up, to be issued to liquidators of Kwankora LTD for the benefit of Kwankora LTD's preference

shareholders, who have agreed to pay the balance of GH¢0.20 per share immediately after the reconstruction. In addition, GH¢650,000 in 12.5% debentures (redeemable after 5 years) in Bitita LTD is to be issued as compensation for arrears of preference dividends.

- 4) Loan notes to be discharged by the issue of sufficient number of new 12.5% loan notes of Bitita LTD as would yield the same cedi amount of interest.
- 5) Bitita LTD to bear the reconstruction costs of GH¢350,000 as part of the purchase consideration.
- 6) All assets (except intangible assets and receivables in *note (7)*) to be taken over by Bitita LTD at 20% discount. Intangible assets are to be transferred to Bitita LTD at nil amount.
- 7) One customer, who owes an amount of GH¢300,000, to settle her debt after agreeing to a 10% discount.
- 8) All reserves to be capitalised.

The following information is also relevant:

- 1) Bitita LTD is to immediately procure a new plant, which will be used to produce new and green-friendly drugs, under a six-year lease agreement. The present value of all future lease payments is estimated at GH¢1.2 million. Lease payments will be made annually in arrears, and the present value of the first annual payment is GH¢300,000.
- 2) Kwankora LTD currently has unutilised tax credits of GH¢520,000. No deferred tax asset relating to these credits is currently included in the above statement due to lack of sufficient future taxable profits. Bitita LTD is however projected to start making profits right from its first year of operations.

Required:

Assuming that all the above provisions of the scheme are fulfilled,

- i) Prepare in the books of Kwankora LTD:

- Realisation Account
- Bitita Account
- Sundry Members' accounts

(10 marks)

- ii) Prepare opening statement of financial position of Bitita LTD as at 1 September 2024.

(5 marks)

- b) Step by step approach is suggested for the preparation of a consolidated statement of financial position.

Required:

Detail **FIVE** steps necessary to prepare a consolidated statement of financial position as at the acquisition date.

(5 marks)

(Total: 20 marks)

QUESTION FIVE

- a) Krapa Energies PLC (Krapa), a largely foreign-owned firm, is a well-established energy firm with operations in Ghana and three other countries within the West Africa sub region. Krapa operates under two operating segments, with one segment supplying conventional (non-renewable) and the other supplying renewable energy (solar and wind power). Governments of the four countries aim to limit the use of non-renewable energies in the next three to ten years.

Krapa is currently under review for an energy-sector 3-year credit facility from Gyapa Energy Bank, and you are in charge of evaluating Krapa's financial situation and prospects.

Below are the latest financial statements (together with the comparatives) of Krapa:

	2024	2023
	GH¢'million	GH¢'million
Revenue	6,300	5,100
Cost of sales	<u>(3,940)</u>	<u>(3,500)</u>
Gross profit	2,360	1,600
Operational costs	(650)	(490)
Distribution costs	(460)	(440)
Finance costs	<u>(80)</u>	<u>(95)</u>
Profit before tax	1,170	575
Income tax	<u>(240)</u>	<u>(105)</u>
Profit after tax	930	470
Profit attributable to non-controlling interests	<u>(63)</u>	<u>-</u>
Profit attributable to parent's owners	867	470

	2024	2023
	GH¢'million	GH¢'million
<u>Assets</u>		
Tangible assets	4,140	3,580
Defined benefit plan	800	420
Inventory	1,845	1,346
Trade receivables	1,120	1,080
Cash at bank	<u>660</u>	<u>754</u>
Total assets	8,565	7,180

<u>Equity and liabilities</u>		
Share capital	1,500	1,500
Retained earnings	2,760	2,020
Non-controlling interests	225	-
Share appreciation rights (exercisable in 2026)	830	750
Dollar-denominated bonds (2028)	1,550	1,140
Government Grant (Note 1)	400	500
Trade payables	<u>1,300</u>	<u>1,270</u>
Total equity and liabilities	8,565	7,180

Additional information:

- i) The government grant was obtained on 1 September 2022 and relates entirely to acquisition of a clean energy processing facility. The figures shown above represent the correct amounts of total amortised grant at the end of both years. GH¢50 million of the unamortised grant balance at 31 August 2024 will be amortised in 2025
- ii) Relevant information relating to the two operating segments for the two years are provided below:

	2024		2023	
	Renewable Energy GH¢'million	Conventional Energy GH¢'million	Renewable Energy GH¢'million	Conventional Energy GH¢'million
Revenues:				
External	1,960	3,948	1,120	3,750
Internal	140	252	80	150
	2,100	4,200	1,200	3,900
Operating costs	(1,510)	(3,540)	(1,020)	(3,420)
Profit from operations	590	660	180	480

Required:

- i) Calculate the following ratios based on both 2023 and 2024 financial statements:
- Operating profit margins (the entity and the two segments).
 - Return on capital employed.
 - Inventory turnover (in times).
 - Acid-test ratio.
 - Debt(interest-bearing)/equity ratio.
- (7 marks)**
- ii) Write a memo to the credit approving team to provide assessment of financial and long-term viability of Krapa based on the above financial ratios. Your analysis should also discuss how the performance of the two segments can help explain Krapa's overall performance as far as the information permits.
- (8 marks)**
- b) Data analytics can be categorized as *descriptive analytics*, *predictive analytics* and *prescriptive analytics*.

Required:

Explain these categories, giving an example *each*.

(5 marks)

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

Akandoh Group
Statement of Cash Flows for The Year Ended 31 May 2025

	GH¢m	GH¢m
Cash flows from operating activities:		
Profit before taxation		224
Adjustments for:		
Depreciation	88	
Impairment losses on goodwill (W2)	6	
Foreign exchange loss (W8)	4	
Investment income – share of profit of associate	(24)	
Investment income – gains on financial assets at fair value through profit or loss	(12)	
Interest expense	<u>32</u>	
		<u>94</u>
Cash flows from operating activities before working capital changes		318
Increase in trade receivables (264 – 224 – 32)	(8)	
Decrease in inventories (308 – 336 – 40)	68	
Decrease in trade payables (220 – 196 – 24 – (W8) 34 PPE payable)	<u>(34)</u>	
		<u>26</u>
Cash generated from operations		344
Interest paid (W7)	(24)	
Income taxes paid (W6)	<u>(74)</u>	
		<u>(98)</u>
Net cash inflows from operating activities		246
Cash flows from investing activities:		
Acquisition of subsidiary, net of cash acquired (52 – 16)	(36)	
Purchase of property, plant and equipment (W1)	(50)	
Purchase of financial assets (W4)	(20)	
Dividend received from associate (W3)	<u>22</u>	
Net cash used in investing activities		(84)
Net cash inflows before financing activities		162
Cash flows from financing activities:		
Proceeds from issuance of share capital (1088 – 944 – (160 * 60% / 2 * GH¢2.25))	36	
Proceeds from long-term borrowings (760 – 640)	120	
Dividend paid	(90)	
Dividends paid to non-controlling interests (W5)	<u>(8)</u>	
Net cash inflows from financing activities		58
Net increase in cash and cash equivalents		220
Cash and cash equivalents at the beginning of the year		<u>96</u>
Cash and cash equivalents at the end of the year		<u>316</u>

Workings	GH¢m		GH¢m
(1) Property, Plant & Equipment (Additions)			
b/d	1,624		
Revaluation	116		
Acquisition of subsidiary	184	Depreciation	88
Additions on credit (W8)	30		
Cash (β)	50	C/d	1,916
	2,004		2,004
(2) Impairment losses on goodwill			
b/d	20		
Acquisition of subsidiary		Impairment losses (β)	6
((160*60%/2 * 2.25)+52+(240*40%)) – 240 net assets	16	c/d	30
	36		36
(3) Dividends received from associates – Investment in Associate			
B/d	78		
P/L	24	Dividends received (β)	22
OCI	16		
		C/d	96
	118		118
(4) Purchase of Financial Assets – Financial Assets @ Fair Value Through Profit or Loss			
B/d	0		
P/L	12	C/d	32
Addition(β)	20		
	32		32
(5) Dividends paid to Non-Controlling Interests			
Dividends paid (β)	8	B/d	56
C/d	168	TCI	24
		Acquisition of subsidiary (240*40%)	96
	176		176
(6) Income Taxes payable			
Income Taxes paid (β)	74	B/d deferred tax	52
c/d deferred tax (68 + 8)	76	b/d current tax	44
c/d current tax	56	P/L	68
		OCI	34
		Acquisition of subsidiary	8
	206		206

(7) Interest Payable			
Interest paid (β)	24	B/d	8
c/d	16	P/L	32
	40		40

	GH¢m	GH¢m
(8) Foreign currency transaction		
Transactions recorded on:		
(1) 5 March DEBIT Property, plant and equipment (204m/6.8)	30	
CREDIT Payables		30
(2) 31 May Payable = 204m/6.0 = GH¢34m		
DEBIT P/L (Admin expenses)	4	
CREDIT Payables (34 – 30)		4

(Total: 20 marks)

EXAMINER'S COMMENTS

This question on consolidated statement of cash flows was very unpopular and unexpected although the question was very straightforward. Few students could identify the effect of group transactions on the consolidated statement of cash flows. Candidates appeared unprepared, and that reflected in the relatively poor responses to the question. Most candidates had little or no knowledge about consolidated cash flow statements.

Those with some knowledge in cash flow statements could not classify items under the appropriate components in a cash flow statement. 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 scores.

It is recommended that the topic on cash flow statements be treated thoroughly by tutors and students. Candidates are advised to prepare adequately and solve past questions before taking the paper.

QUESTION TWO

- a) Given the information provided, it is reasonable to assume on 31 May 2024 the progress Goldkey has made towards satisfaction of the performance obligation is 30% complete.

The next stage of the revenue recognition process is to measure the expected transaction price (total revenue receivable) under the contract. In this case, the expectation of total revenue would have been reduced by the fact that a delay is expected to the completion of the contract by Goldkey. Therefore, there is an element of **variable consideration**.

(0.5 mark)

IFRS 15 requires us to take this into account provided the variable element can be reliably measured. The expected total revenue receivable by Goldkey is 25.6 million (W1). Since the contract is 30% complete by 30 May 2024, Goldkey should recognise revenue of GH¢7.68 million (GH¢25.6 million x 30%) in the current period. GH¢7.68 million will be recognised in the statement of profit or loss for the year ended 30 May 2024.

(0.5 mark)

The costs which relate directly to the contract include:

- the month-by-month labour and material costs; and
- the depreciation of the plant and equipment which is being used on the contract.

Goldkey would also need to recognise the following cost as an expense when incurred:

- the cost of wasted materials which were not reflected in the initial pricing of the contract.

(0.5 mark)

Therefore, the total direct costs of fulfilling the contract to 30 May 2024 will be GH¢7.04 million (W2). The wasted materials of GH¢1.6 million would also need to be expensed, but do not relate directly to the contract so would likely be recorded within administrative expenses. All of the costs (GH¢7.04 + GH¢1.6 = GH¢8.64 million) will be recognised in profit or loss.

(0.5 mark)

IFRS 15 requires the statement of financial position should show a contract asset or contract liability, depending on the relationship between the revenues and the amounts received from customers. In this case, Goldkey will recognise a contract liability of GH¢3.52 million (W3). This will be shown as a current liability in the statement of financial position at 30 May 2024. The plant and equipment used on the contract will be shown as a non-current asset in the statement of financial position at 30 May 2024. Its carrying amount will be GH¢11.52 million (GH¢12.8 million – GH¢1.28 million (W2)).

(1 mark)

W1 – Expected total revenue receivable by Goldkey

Date	Amount (GH¢'000)	Explanation
1 December 2023	4,800	Initial deposit
31 May 2024	6,400	Payment 1
30 November 2024	6,400	Payment 2
15 July 2025	8,000	(GH¢8.8m – GH¢0.8m due to late completion)
	25,600	

W2 – Costs to date on the contract

Cost type	Incurring to date GH¢'000
Overheads (GH¢0.96 million per month x 6)	5,760
Depreciation (GH¢12.8 million x 6/60)	1,280
31 May 20224	<u>7,040</u>

W3 – Contract liability at 31 May 2024

	Dr GH¢'000	Cr
GH¢'000		
Revenue recognised to date (30% x 25,600)	7,680	
Payments received from ICAG to date (4,800+6,400)		11,200
Contract liability at 31 May 2024 (11,200 – 7,680)	3,520	
	<u>11,200</u>	<u>11,200</u>

(5 marks)

b)

Date	Narrative	Number of shares	Time fraction	Bonus	Weighted average
01-June 2024	b/d	6,000,000	x 3/12	x 2/3	1,000,000
01-October 2024	Stock consolidation				
	(6,000,000/3 x 1)	(2,000,000)			
	(6,000,000 x 2/3)	4,000,000	x 6/12		2,000,000
01-April 2025	Issue at market price	600,000			
	c/d	4,600,000	x 3/12		<u>1,150,000</u>
					4,150,000

- The shares allotted are included from the date the cash is receivable (1 April 2025), IAS 33 para 21(a).
- Basic earnings per share = (GH¢478,000)/4,150,000 = **11.5 pesewas loss per share.**

As the preference shares are redeemable, they are accounted for as a financial liability under IAS 32 Financial Instruments: Presentation and therefore the dividend payment is treated as a finance cost, so no further adjustment to earnings is required as the dividend is included in finance costs.

(5 marks)

c) **Provision**

	GH¢	GH¢
Provision for outstanding lawsuits (Balance b/f)		500,000
Additional lawsuits provision for 50 faulty products (50 x 350)	17,500	
Warranties – Minor repairs (65,000 x 20%)	13,000	
– Major repairs (157,000 x 5%)	<u>7,850</u>	
		<u>38,350</u>
Balance c/f (At 30 September 2024)		<u>538,350</u>

Entries

Dr Expense	38,350	
Cr Contingent Liability		38,350

(4 marks)

d) **Recognition and Measurement of IAS 41**

- IAS 41 dictates that biological assets and agricultural produce should be recognized when an entity controls the asset, future economic benefits are probable and fair value or cost can be measured reliably.

(1.5 marks)

- Biological assets are initially measured at fair value less costs to sell, and agricultural produce at fair value less costs to sell at harvest. Gains and losses from changes in fair value are recognized in profit or loss in the period they arise.

(1.5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question on selected accounting standards (IFRS) was not expected to be a difficult question for most candidates. Only one standard was unfamiliar with students – **IAS 41: Agriculture**. The question focused on four standards: **IFRS 15: Revenue from Contract with Customers**, **IAS 33: Earnings per Share**, **IAS 37: Provisions, Contingent Liabilities and Contingent Assets** and **IAS 41: Agriculture**. Most of the candidates did not attempt sub-question (d) on recognition and measurement of biological assets (**IAS 41: Agriculture**)

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 students.

QUESTION THREE

- a) IFRS 11 identifies and distinguishes between two joint arrangement types: joint venture and joint operations.

In joint ventures, the venturers have rights to the arrangement's net assets while in joint operations, the operators have rights to the assets, and obligations for the liabilities, relating to the arrangement.

If a joint arrangement is not structured through a separate legal entity, it is always accounted for as a joint operation.

However, if a joint arrangement is structured through a separate legal entity, then the classification will depend on the rights and obligations of the parties to the joint arrangement.

Clearly, VW Projects is an independent entity and therefore, its classification requires further analyses. But it can be concluded that from the above that:

- The obligation of the parties to purchase all the output produced by the entity reflects the exclusive dependence of the entity upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of the entity.
- The fact that the parties have rights to all the output produced by the entity means that the parties have rights to all the economic benefits of the assets of the entity.
- This is further strengthened by that fact if VW were allowed to sell outside under those rare circumstances the sale would create no profit to position the project to meet its own liabilities.
- These facts and circumstances indicate that the arrangement is a joint operation.

And the conclusion about the classification of the arrangement would not change just because the two parties would be transmitting and selling their share of the produced power to their own external clients.

Therefore, AR would have to recognise its share of assets, liabilities, income and expenses associated with VW Projects throughout the arrangement's lifecycle unless material changes occur to its terms.

(5 marks)

- b) IFRS 8 requires that once an operating segment has been identified the entity needs to report segment information if the segment meets any of the following quantitative thresholds:

- its reported revenue (external and inter-segment) is 10% or more of the combined revenue, internal and external, of all operating segments
- its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined profit of all operating segments that did not report a loss and (ii) the combined loss of all operating segments that reported a loss or
- its assets are 10% or more of the combined assets of all operating segments.

IFRS 8 states that if the total external turnover reported by the operating segments identified by the size criteria is less than 75% of total entity revenue then additional segments need to be reported on until the 75% level is reached.

Apply the above principles to Andani Wares Plc (AW) as follows:

- i) The total revenue (external and internal) of AW's operating segments is GH¢35.14m (GH¢22.92m + GH¢12.22m). So, an operating segment must have revenue of at least GH¢3,514,000 to satisfy the first 10% test.

- ii) The combined profits of profitable segments are GH¢3.2m (GH¢1.56m + GH¢0.25m + GH¢0.31m + GH¢1.08m) and combined losses of lossmaking segments are GH¢0.63m (GH¢0.39m + GH¢0.11m + GH¢0.13m). The larger of these is GH¢3.2m. So, a segment must have a profit or loss of at least £ GH¢320,000 to satisfy the second 10% test.
- iii) The combined assets of all seven operating segments are GH¢32.76m. So, a segment must have assets of at least GH¢3,276,000 to satisfy the third 10% test.
- iv) The results of the three 10% tests for each operating segment are as follows:

	<i>Total revenue at least GH¢3.514m</i>	<i>Profit/(Loss) at least GH¢0.32m</i>	<i>Assets at least GH¢3.276m</i>	<i>Reportable segment</i>
Metals	Yes	Yes	Yes	Yes
Farming equipment	No	Yes	Yes	Yes
Home appliances	No	No	No	No
Furniture	Yes	No	Yes	Yes
Plumbing materials	No	No	No	No
Glassware	Yes	Yes	Yes	Yes
Sporting goods	No	No	Yes	Yes

‘Home appliances’ and ‘Plumbing materials’ segments fail all three of the 10% tests, so these will not be reportable as long as the remaining segments satisfy the 75% test and much more so given that the aggregation criteria are not met.

75% of the company's total external revenue is GH¢21.39m ($75\% \times \text{GH¢}28.52\text{m}$). The total external revenue of reportable segments is GH¢18.87m (3.5m + 2.99m + 3.56m + 4.88m + 3.94m) so the 75% test is not satisfied.

Information about other business activities and operating segments that are not reportable – Home appliances and Plumbing materials – shall be combined and disclosed in an ‘all other segments’ category separately from other reconciling items in the reconciliations required by paragraph 28 of IFRS 8.

IFRS 8 requires that segment data for a prior period presented for comparative purposes shall be restated to reflect the fact that Metals segment has become a reportable segment in the current period.

(5 marks)

c)

i) **Global Reporting Initiative**

The Global Reporting Initiative (GRI) was founded in 1997 as an international not-forprofit organisation whose mission is to make sustainability reporting standard practice. GRI publish an influential set of standards on sustainability. The first GRI guidelines were published in 1999 and have evolved into the GRI Sustainability Reporting Standards (GRI Standards). The standards are used by several thousand organisations, in over 90 countries and are referenced in over 20 stock exchanges and in legislation and regulation in over 40 countries.

The GRI Standards are structured as a set of interrelated standards issued in a modular structure and comprise:

Universal standards (100 series)

- GRI 101: Foundation — sets out reporting principles;
- GRI 102: General disclosures — contextual information about the organisation and its sustainability practices;
- GRI 103: Management approach — how an organisation manages a material topic and to be used for each material topic in a sustainability report.

Topic specific standards

- 200 series (economic topics)
- 300 series (environmental topics)
- 400 series (social topics)

They have been developed primarily to be used together to help an organisation prepare a sustainability report which is based on the reporting principles and which focuses on material topics.

ii) **The Sustainability Accounting Standards Board (SASB)**

SASB was established in 2011 as an independent non-profit organisation. It subsequently merged with the International Integrated Reporting Council (Section 2) to form the Value Reporting Foundation (VRF). The VRF was then consolidated into the IFRS Foundation in 2022. The SASB publishes sustainability accounting standards which provide disclosure guidance on sustainability for mandatory filings to the U.S. Securities and Exchange Commission (SEC).

SASB produces standards for different industries. Each standard is comprised of:

- disclosure guidance; and
- accounting standards on sustainability topics for use by U.S. and foreign public companies in their annual filings with the U.S. Securities and Exchange Commission (SEC).

The disclosure guidance identifies sustainability topics at an industry level, which may be material to a company within that industry, depending on that company's specific operating context. Each company is ultimately responsible for determining those sustainability topics that are material to it.

iii) **The Task Force on Climate-Related Financial Disclosures (TCFD)**

The TCFD was established by the Financial Stability Board (based in Switzerland) in 2015 to develop recommendations on the types of information that companies should disclose to support investors, lenders and insurance underwriters in assessing and pricing risks related to climate change.

In 2017 it issued its TCFD Framework which provides disclosure recommendations that focus on climate-related risks and opportunities and are structured around four key areas: governance, strategy, risk management and metrics and targets. The recommended disclosures are:

Governance	<ul style="list-style-type: none">• Describe the board's oversight of climate-related risks and opportunities• Describe management's role in assessing and managing climate related risks and opportunities
Strategy	<ul style="list-style-type: none">• Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term• Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning• Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios
Risk Management	<ul style="list-style-type: none">• Describe the organisation's processes for identifying and assessing climate-related risks• Describe the organisation's processes for managing climate related risks• Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management
Metrics and targets	<ul style="list-style-type: none">• Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process• Disclose greenhouse gas emissions and related risks Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

This structure has been adopted by both the International Sustainability Accounting Board and the European Union for their sustainability reporting standards.

(10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question was in three parts. The first part focused on *IFRS 11: Joint Arrangements*. The second part was on *IFRS 8: Operating Segments*. The third part was on sustainability issues.

On the question on joint arrangements, some candidates were able to clearly identify and distinguish between two joint arrangement types: joint venture and joint operations. They were able to indicate that based on the facts and circumstances the arrangement is a joint operation. Most candidates however missed the fact the classification of the arrangement would not change just because the two parties would be transmitting and selling their share of the produced power to their own external clients.

For the question on segment reporting, it is important to note that IFRS 8 requires that once an operating segment has been identified, the entity needs to report segment information if the segment meets any of the following quantitative thresholds:

- its reported revenue (external and inter-segment) is 10% or more of the combined revenue, internal and external, of all operating segments
- its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined profit of all operating segments that did not report a loss and (ii) the combined loss of all operating segments that reported a loss or
- its assets are 10% or more of the combined assets of all operating segments.

Candidates got the concept well but most of them were unable to apply it to the question correctly. Majority of candidates were able to indicate at least one of the thresholds and hence earned some marks.

The third part of the question on sustainability was much of a recall question. Candidates were required to restate the provisions of the Global Reporting Initiative (GRI) standards, Sustainability Accounting Standards Board (SASB) disclosure guidance and Task Force on Climate-Related Financial Disclosures (TCFD) structured around four key areas: governance, strategy, risk management and metrics and targets. Candidates performed well in the responses they provided.

QUESTION FOUR

a)

i) Realization account			
	GH¢000		GH¢000
Tangible assets	11,050	Discount on 12% loan notes	200
Intangible assets	2,330	(5,000 – 4,800)	
Inventories	3,320	Preference shares	900
Trade receivables (1,880 – 300)	1,580	(4,500 – 3,600)	
Customer discount (10% x 300)	30	Purchase consideration (W1)	15,400
Reorganization costs	350	Trade payables	3,840
Preference dividend	650		
Gain on realization	<u>1,030</u>		
	<u>20,340</u>		<u>20,340</u>

ii) Bitita account			
	GH¢000		GH¢000
Purchase consideration	15,400	Investment in Bitita's ordinary shares (W1)	6,000
		Investment in Bitita's 12.5% loan notes (W1)	5,450
		Investment in Bitita's preference shares (W1)	3,600
		Bank: reconstruction costs	<u>350</u>
	<u>15,400</u>		<u>15,400</u>

iii) Sundry Members' Account					
	Pref Shares	Ord. Shares		Pref Shares	Ord. Shares
	GH¢000	GH¢000		GH¢000	GH¢000
Retained earnings	-	6,300	Balance b/d	4,500	12,000
Realization	900	-	Cumulative OCI	-	500
Balance c/d	<u>3,600</u>	<u>7,230</u>	Gain on realization	<u>-</u>	<u>1,030</u>
	<u>4,500</u>	<u>13,530</u>		<u>4,500</u>	<u>13,530</u>
Bitita's ord. shares	-	6,000	Balance b/d	3,600	7,230
Cash settlement (W2)	-	1,230			
Bitita's pref. shares	<u>3,600</u>	<u>-</u>			
	<u>3,600</u>	<u>7,230</u>		<u>3,600</u>	<u>7,230</u>

Workings

W1

Purchase consideration

Issue of Bitita's ordinary shares:

To ordinary shares (4,000 x 1.5) 6,000

Issue of Bitita's 12.5% debentures:

To preference dividends 650

To 12% Loan notes (12%/12.5% x 5,000) 4,800 5,450

Issue of Bitita's preference shares

To preference shares (2,000 x 1.80) 3,600

Cash for reconstruction costs 350

15,400

W2

Bank Account – Kwankora

	GH¢000		GH¢000
Balance b/d	960	Realization	350
Bitita: reconstruction costs	350	Sundry members:	
Trade receivables (90% x 300)	<u>270</u>	<i>Final settlement</i>	<u>1,230</u>
	<u>1,580</u>		<u>1,580</u>

b)

Statement of financial position of Bitita Ltd as at 1 September 2024

GH¢000

Non-current assets

Tangible assets (11,050 x 80%) 8,840

Right-of-use asset 1,200

Goodwill (W2) 6,480

16,520

Current assets

Inventories (3,320 x 80%) 2,656

Trade receivables (1,580 x 80%) 1,264

Bank (W1) 4,050

7,970

Total assets

24,490

Equity and liabilities

Ordinary shares (6,000 + 4000 W1) 10,000

18% Preference shares (3,600 + 400 W1) 4,000

14,000

Non-current liabilities

12.5% Debentures 5,450

Lease payable (1,200 – 300) 900

6,350

Current liabilities

Trade payables 3,840

Lease payable 300

Total equity and liability

24,490

Workings

W1	Bank account – Bitita	
	GH¢000	GH¢000
Ordinary shares (4000x1)	4000	Realization 350
Preference shares (2000x0.2)	<u>400</u>	Balance c/d <u>4,050</u>
	<u>4,400</u>	<u>4,400</u>

W2 Goodwill

	GH¢000
Purchase consideration	15,400
Less Net Assets Acquired:	
Tangible assets	8,840
Inventories	2,656
Trade receivables	1,264
Trade payables	<u>(3,840)</u>
	<u>8,920</u>
Goodwill	<u>6,480</u>

The unutilized tax credits relating to the liquidated company cannot be transferred to the new company, a separate legal person, and hence, despite the expectation of sufficient future taxable profits by the new company no deferred tax asset should be recognized.

(60 ticks @ 0.25 for 15 marks)

- c) Steps necessary to prepare a consolidated statement of financial position at the acquisition date.
- 1) Establish the group share (parent company share) in the subsidiary and the percentage owned by non-controlling interests.
 - 2) Perform double entry to record any individual company adjustments that might be necessary.
 - 3) Set out a pro-forma statement of financial position.
 - 4) Calculate the net assets of the subsidiary at the acquisition date.
 - 5) Calculate goodwill
 - 6) Calculate non-controlling interest
 - 7) Calculate consolidated retained earnings

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

(Total: 20 marks)

EXAMINER'S COMMENTS

The question was attempted by most candidates. The question was in two parts: sub-question (a) focused on Capital Reconstruction – realization account, sundry members account and purchase consideration. This was not well answered by most candidates. The bank account was not correctly accounted for by most candidates and therefore affected the financial position computation.

Sub-question (b) which required candidates to explain the necessity in preparing consolidated financial position statement was well answered by most candidates. Only a few did not attempt sub-question (b).

QUESTION FIVE

a)

Ratio	Entity/Segment	2024	2023
(i) Operating profit margin $= \frac{PBIT}{Sales} \times 100$	Company	$\frac{1,170+80}{6,300} \times 100$ =19.84%	$\frac{575+95}{5,100} \times 100$ =13.14%
$\frac{PBT}{Sales} \times 100$	Company	$\frac{1,170}{6,300} \times 100$ =18.57%	$\frac{575}{5,100} \times 100$ =11.27%
	Renewable Energy Segment	$\frac{590}{2,100} \times 100$ =28.09%	$\frac{180}{1,200} \times 100$ =15%
	Conventional Energy Segment	$\frac{660}{4,200} \times 100$ =15.71%	$\frac{480}{3,900} \times 100$ =12.31%
(ii) ROCE $= \frac{PBIT}{CE} \times 100$	Company	$\frac{1,250}{(8,565-1,300-50)} \times 100$ =17.33%	$\frac{670}{(7,180-1,270-100)} \times 100$ =11.53%
(iii) Inv. Turnover (in times) = $\frac{COS}{Inv.}$	Company	$\frac{3,940}{1,845}$ =2.14 times	$\frac{3,500}{1,346}$ =2.60 times
(iv) Acid-test ratio $= \frac{CA - Inventory}{Current liabilities}$	Company	$\frac{1,120+660}{1,300+50}$ =1.32:1	$\frac{1080+754}{1,270+100}$ =1.34:1
(v) Debt/equity $= \frac{Debt}{Equity} \times 100$	Company	$\frac{1,550}{1,500+2,760+225} \times 100$ = 34.58%	$\frac{1,140}{1,500+2020} \times 100$ =32.39%

(7 marks)

b)

To: The Credit Team
From: Financial consultant
Date: 1 November 2024
Subject: Evaluation of the performance (including nonfinancial) and position of Krapa Energies PLC

Introduction

This report provides an assessment of financial and sustainability performance and financial position of Krapa Energies PLC for the year ended 31 October 2024, relative to its comparative year. The analysis covers profitability, liquidity, efficiency, gearing, and sustainability. The report should be read along with the attached appendix.

Profitability

Profitability analysis involves evaluating a firm's performance to determine how effectively it generates profit relative to its revenue, assets, equity and other financial metrics. Two main measures of performance are used to assess Krapa's profitability. Krapa's revenues increased by 24.5% ($1,200/5,300 \times 100$) in 2024 over 2023, driven by sales growth in both segments especially the Renewable energy. The rise in revenues was accompanied by improved operating margins. Krapa earned about 20 pesewas in 2024 on each cedi of revenue made as against approximately 13 pesewas earned in 2023. The implication is that there has been marked improvement in how well Krapa has managed its operational costs. While the operating margins of both segments have also improved it is apparently clear that the company-wide margin increase was more driven by Renewable Energy Segment. In both years, Renewables' margins, unlike Conventional margins, were higher than those of the company-level figures. Bearing in mind the government's plan of limiting non-renewable operations over the next four years, it appears so refreshing that the source of the entity's improved performance emanated from the Renewables. Similar to the operating margins, ROCE saw a significant improvement over the two years. Krapa generated 17.33% returns in 2024 as against 11.53% in 2023 on the capital invested by equity and long-debt holders. This suggests that Krapa experienced improvement in how efficient it used its resources (net of short-term liabilities) to generate profit. Overall, Krapa's profitability was better in 2024 than in 2023.

Liquidity

Liquidity ratios are metrics used to evaluate a company's ability to pay off its short-term obligations using its near-term resources. To assess Krapa's liquidity, acid-test ratio has been used. Acid-test ratio is a measure of whether the company can cover its liabilities without relying on the sale of inventories. While this ratio decreased from 1.34 in 2023 to 1.32 in 2024, Krapa witnessed a substantial improvement in being positioned to use current assets without considering inventories to cover its current liabilities. By removing inventories from the numerator, the acid-test ratio provides a stringent measure of liquidity. The ratio of 1.32 provides much liquidity comfort as the company could meet all its pressing liabilities and still have to spare 32 pesewas on every GH¢1 of short-term debt owed.

Efficiency

Efficiency measures help to assess how effectively a company utilizes its assets and manage its operations. The available metric here is the inventory turnover. Inventory turnover provides a measure of how quick a company takes to convert inventory into sales. Krapa inventory turnover has decreased over the two years. The company could turn inventory into sales 2.6 times in 2024 as against the 2.14 times in 2023. The reduced turnover level makes it plausible to now confirm that the significant improvement in profitability was more likely driven by better cost control. The deterioration may also signify that some of the items have become slow-moving or obsolete.

Gearing

Gearing ratios provide an indication about how much financial risk a company faces by relating debt to equity capital. Although Krapa's debt-to-equity ratio has increased, the new ratio still falls comfortably below 50%. Thus, there has been an uplift in exposure to financial risk but the current gearing position does not raise much concern as the company still heavily relies on equity to finance its operations.

Conclusion

To sum up the analysis so far carried out, it appears Krapa could be a good candidate to consider for the credit facility. The improvement in Krapa profitability and liquidity far outweighs the loose deterioration in its inventory turnover and gearing over the same period. Krapa has a good future and appears safe to be granted the three-year credit.

(8 marks)

- c) ***Descriptive analytics*** summarizes historical data to provide insights into what has already happened. It focuses on describing past events and trends, often using techniques like calculating averages, percentages and frequencies. This helps businesses understand past performance and identify patterns, but it doesn't predict the future or prescribe actions.

For example, a retailer might analyze sales data to determine the most popular products, the peak sales periods (e.g., holiday season), and the average purchase value. This information can then be used to optimize inventory, marketing campaigns, and staffing levels.

Predictive analytics uses historical data and statistical algorithms to forecast future outcomes. It helps businesses make informed decisions by identifying trends and patterns that indicate what might happen next. This allows for proactive strategies to manage risk, optimize operations, and improve customer experiences.

For example, financial institutions use predictive models to identify fraudulent transactions by analyzing spending patterns and identifying anomalies.

Prescriptive analytics is a type of advanced analytics that recommends specific actions to optimize outcomes based on data analysis. It goes beyond simply identifying what has happened (descriptive) or predicting what might happen (predictive) by actively suggesting the best course of action to take.

For example, retailers can use prescriptive analytics to adjust prices in real-time based on demand, competition, and other factors, maximizing revenue and profit.

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question had two parts. The first part required students to compute relevant ratios for two years. The second part required students to prepare a memo analysing the company's profitability, liquidity, efficiency and gearing based on given ratios. The question was a standard question and generally straightforward.

The question, however, required some segmental analysis. Some candidates were not able to compute the denominator of capital employed and PBIT, which were not directly given. Some candidates were confused with the inventory turnover formula as they stated the reverse, while some used revenue in place of cost of sales. Computing current liability was a challenge to some candidates as a result of the government grant. Even though there was a footnote to that effect, some found it difficult to separate the grant into current and non-current. This affected the computation of the capital employed also.

Some candidates also failed to add the non-controlling interest (NCI) figure in deriving the equity of the firm and this affected their Debt/Equity ratio. A few candidates scored below half of the allotted marks, indicating possible challenges in understanding how to structure their analysis or perform intertemporal analysis.

The second part of the question on descriptive, predictive and prescriptive analytics was well answered by majority of the students.

CONCLUSION

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