

MARCH 2025 PROFESSIONAL EXAMINATIONS
FINANCIAL REPORTING (PAPER 2.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

EXAMINER'S GENERAL COMMENTS

The Financial Reporting examination paper was well-structured and aligned with the ICAG syllabus. The paper effectively assessed candidates on key IFRS standards and financial reporting principles.

The standard of the paper was comparable to previous examination sessions, with comprehensive syllabus coverage and an appropriate difficulty level for the cognitive domain being examined. The mark allocation followed syllabus weightings, ensuring fairness across sub-questions. Financial analysis questions were sufficiently complex to test analytical skills and IFRS applications. The clarity of requirements was excellent, with no ambiguity, and the questions met professional standards appropriate for ICAG examinations.

PERFORMANCE OF CANDIDATES

Overall, performance of candidates was below expectation. The less than satisfactory performance may be because of short period for preparation and lack of appreciation of content and application of the relevant IFRSs. Candidates have still not appreciated the fact that passing the Financial Reporting Paper greatly depends on their comprehension and application of the IFRSs.

NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES

Strengths:

- Some candidates performed well in Question 1 on Consolidated Financial Statements.
- Question 5 was generally well answered, except for part (d) on foreign currency transactions.

Weaknesses:

- Question 3 continues to be a major challenge for most candidates. Some candidates did not appear to know the format and content of financial statements, as they failed to present their answers accordingly. The Statement of Changes in Equity proved to be particularly difficult. A majority of the candidates were either unable to address footnotes or answered them incorrectly."
- Many candidates failed to apply the relevant IFRSs correctly, highlighting the need for a stronger grasp of the standards.

GUIDANCE ON DEALING WITH FUTURE EXAM QUESTIONS

- The exam results indicate that some candidates demonstrated strong knowledge in group accounting and financial statement analysis but struggled with the correct application and presentation of IFRS principles.
- Future candidates should prioritize not only calculations but also structured presentation, conceptual understanding, and application of IFRS standards in various accounting scenarios.
- Regular practice with full financial statement preparation, IFRS case studies and exam simulation exercises will enhance performance in future sittings.

QUESTION ONE

Aba LTD (Aba), a technology company, acquired 60% of the share capital of Boafo LTD (Boafo) on 1 January 2024. There are two elements to the purchase consideration - a share exchange transaction of three shares in Aba for every five shares acquired in Boafo, and a cash consideration of GH¢20.4 million on the date of acquisition. The share price of Aba at the acquisition date was GH¢1.2 per share. Only the cash consideration of GH¢20.4 million has been recorded in the books by Aba. The market price of Boafo's shares just before the acquisition was GH¢ 1.015.

The summarised draft Financial Statements of both companies as at 31 December, 2024 are as follows:

Statement of Profit or Loss for the year ended 31 December 2024

	Aba	Boafo
	GH¢000	GH¢000
Sales revenue	200,500	50,500
Cost of sales	<u>(110,000)</u>	<u>(24,000)</u>
Gross profit	90,500	26,500
Admin expenses	<u>(50,300)</u>	<u>(15,700)</u>
Finance cost	<u>(1,200)</u>	<u>-</u>
Profit before tax	39,000	10,800
Income tax expense	<u>(5,450)</u>	<u>(2,200)</u>
Profit for the year	33,550	8,600

Statement of Financial Position as at 31 December 2024

	Aba	Boafo
	GH¢000	GH¢000
Non-current assets:		
Property, plant & equipment	40,500	35,000
Investment in Boafo	<u>20,400</u>	<u>-</u>
	60,900	35,000
Current assets		
Inventories	10,500	12,000
Trade and other receivables	20,000	2,500
Cash and cash equivalents	<u>12,500</u>	<u>550</u>
	43,000	15,050
	<u>103,900</u>	<u>50,050</u>
Equity		
Share capital (GH¢1 per ordinary shares)	50,000	35,000
Retained earnings as at 31 December 2023	10,000	5,000
Retained earnings for year ended 31 December 2024	<u>33,550</u>	<u>8,600</u>
	93,550	48,600
Non-current liabilities		
Long-term borrowings	5,600	800
Current liabilities		
Trade and other payables	4,750	650
	<u>10,350</u>	<u>1,450</u>
	<u>103,900</u>	<u>50,050</u>

The following information is relevant:

- i) The fair values of Boafo's net assets were equal to their carrying amounts at the date of acquisition with the exception of a plant which was valued at GH¢4 million below its carrying amount. The remaining useful life for this plant is four (4) years and this period has not changed as a result of the acquisition. Depreciation of plant is on a straight-line basis and charged to cost of sales. The fair value of the plant has not been incorporated in the financial statements.
- ii) In the post-acquisition period, Aba sold goods to Boafo at a total value of GH¢4.6 million. These goods cost Aba GH¢ 3 million. During the year, Boafo had sold GH¢ 2.5 million out of the GH¢ 4.6 million goods from Aba for GH¢3.2 million.
- iii) On the first of July 2024, Aba received a grant from the Government in the form of a building. The value of this building was GH¢5 million with a useful life of 20 years. The Accountant of Aba who is not a Chartered Accountant credited the value of the building to revenue. It has been advised that the recognition of this transaction should be done in line with the provisions of ***IAS 20: Accounting for Government Grants and Disclosure of Government Assistance***. It is the group's policy to recognise grants relating to assets as deferred income.
- iv) Aba's policy is to value non-controlling interest at fair value at the date of acquisition. For this purpose, Boafo's share price at that date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.
- v) Goodwill was reviewed for impairment at the end of the reporting period and had suffered an impairment loss equivalent to 10% of goodwill at acquisition which is to be treated as an operating expense.

Required:

Prepare for Aba LTD a Consolidated Statement of Profit or Loss for the year ended 31 December 2024 and a Consolidated Statement of Financial Position as at 31 December 2024. **(20 marks)**

QUESTION TWO

a) **IAS 2: Inventories** prescribes the accounting treatment for inventories; it provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realisable value.

Mrs. Christiana Addo, the Managing Director of Malik LTD has a number of specific queries in relation to inventory and has asked you for professional advice in relation to IAS 2. Malik LTD's closing inventory at 31 December 2024 is GH¢345,000. This includes GH¢4,600 for items accidentally destroyed on 31 December 2024 after the count was completed. Also included is GH¢2,900 which relates to the cost of inventory damaged in October 2024, which can be reworked at a cost of GH¢600 and which can then be sold for GH¢2,400.

Required:

i) Identify **FOUR** situations in which net realisable value is likely to be less than cost. **(2 marks)**

ii) Calculate the closing value of inventory at 31 December 2024 and show how it should be accounted for in the statement of financial position and the statement of profit or loss. **(4 marks)**

b) **IAS 23: Borrowing Costs** sets out the conditions under which borrowing costs should be capitalised or expensed.

On 1 August 2023, Fausty PLC commenced construction of a factory building for its own use. On the same date it issued a 5% loan notes for GH¢40 million. The entire proceeds of the loan notes were used immediately to pay for the land and to purchase building materials for the project. Construction work commenced on 1 October 2023 and continued throughout the year, except for a half-month break in December 2023 and a further half-month break in July 2024.

Required:

i) State the conditions under which borrowing costs can be capitalised. **(2 marks)**

ii) Calculate the amounts that should be capitalised as borrowing costs for the financial year end July 2024. **(3 marks)**

c) **IAS 12: Income Taxes** prescribes the accounting treatment of income taxes, including how to account for the current and future tax consequences of assets, liabilities and transactions recognised in the financial statements. IAS 12 requires entities reporting under IFRS to disclose certain items.

Required:

Identify **THREE** disclosure requirements of IAS 12. **(3 marks)**

(d) Akweley LTD issued GH¢20 million of GH¢100 9% bonds at par on 1 January 2023. The maturity date of the bonds is 31 December 2026. At that date the bonds are redeemable at par or convertible to ordinary shares on the basis of 14 ordinary shares for each GH¢100 bond.

The market interest rate for identical bonds with no conversion rights would have been 5.5% every six months. Coupon interest is paid in two instalments of 4.5% in arrears on 30 June and 31 December.

The following are cumulative discount factors (which you should use where appropriate):

	4.5%	5.5%	9%	11%
3 periods	2.7490	2.6979	2.5313	2.4437
4 periods	3.5875	3.5052	3.2397	3.1024
7 periods	5.8927	5.6830	5.0330	4.7122
8 periods	6.5959	6.3346	5.5348	5.1461

Required:

- i) Determine the value of the liability component and the equity component of the bonds at 1 January 2023 (to the nearest GH¢1).
- ii) Determine the value of the liability component of the bonds at 31 December 2024 (to the nearest GH¢1).

(6 marks)

(Total: 20 marks)

QUESTION THREE

The following trial balance relates to Halidu LTD (Halidu) at 30 June 2024:

	GH¢000	GH¢000
Revenue		3,120,000
Cost of sales	1,757,400	
Distribution costs	45,600	
Administration expenses	118,800	
Loan interest paid	28,800	
Property - cost	1,200,000	
Property - depreciation at 1 July 2023		225,000
Plant and equipment - cost	1,011,600	
Plant and equipment - depreciation at 1 July 2023		291,600
Licence - cost	240,000	
Licence - amortisation at 1 July 2023		96,000
Trade receivables	259,200	
Inventory - 30 June 2024	112,800	
Bank		11,700
Trade payables		211,200
Share capital (GH¢0.25 each)		420,000
Revaluation surplus		78,000
12% loan note (issued 1 July 2023)		240,000
Taxation		12,000
Retained earnings at 1 July 2023	-	68,700
	<u>4,774,200</u>	<u>4,774,200</u>

The following notes are relevant:

- i) Halidu made credit sales for GH¢196 million on a sale or return basis and this is currently included in revenue in the trial balance. At 30 June 2024 customers who had not paid for the goods, had the right to return GH¢62.4 million of them. Halidu applied a mark-up on cost of 30% on all these sales. In the past Halidu's customers have sometimes returned goods under this type of agreement.
- ii) On 1 July 2023, Halidu revalued its property to GH¢1,440 million, of which GH¢360 million relates to the land. This property was acquired 10 years ago at a cost of GH¢1,200 million which included GH¢300 million for the land. The building had an estimated life of 40 years when it was acquired and this has not changed as a result of the revaluation. Depreciation is charged on a straight line basis. The revaluation has not yet been recorded in the books. Halidu has a policy of transferring any excess depreciation to retained earnings.
- iii) During the year, Halidu sold some plant that cost GH¢120 million on 1 December 2020. The proceeds of this sale were GH¢72 million and these have been credited to cost of sales. No other entries have been made relating to the disposal. Plant and equipment is to be depreciated on the reducing balance basis at a rate of 20% per annum. Halidu charges a full year's depreciation in the year of acquisition and none in the year of disposal.

iv) The licence is being amortised on the straight line basis at a rate of 20% per annum.
All depreciation and amortisation is to be charged to cost of sales.

v) The directors have estimated the provision for income tax for the year ended 30 June 2024 at GH¢76.2 million. The balance of taxation in the trial balance relates to over/under provision of tax in the previous year. The only deferred tax consequence relates to those mentioned in note (ii) above. The company pays tax on profit at the rate of 25%.

vi) Halidu intends to dispose of a major line of its business operations in the course of the year. At the date the held for sale criteria were met, the carrying amount of the assets and liabilities comprising the line of business were:

	GH¢'000
Plant and equipment	138,000
Trade receivables	9,000
Trade payables	7,000

It is anticipated that Halidu will realise GH¢135 million for the business. No entries have yet been made in respect of this information.

Required:

Prepare and present a statement of comprehensive income, a statement of changes in equity and a statement of financial position at 30 June 2024 in a form suitable for presentation to the shareholders and in accordance with the requirements of International Financial Reporting Standards (IFRS). **(20 marks)**

QUESTION FOUR

Ben Garzy LTD has recently undertaken significant strategic initiatives, including the sale of a key business unit and the implementation of a new information technology (IT) system aimed at enhancing operational efficiency.

Below are excerpts from the company's most recent financial statements:

Income Statements for the Year ended 31 December

	2023 GH¢'000	2022 GH¢'000
Revenue	45,000	60,000
Cost of Sales	<u>(27,000)</u>	<u>(36,000)</u>
Gross Profit	18,000	24,000
Gain on Sale of Business Unit	2,000	-
Distribution Expenses	(4,000)	(6,000)
Administrative Costs	(5,500)	(3,800)
Finance Costs	<u>(600)</u>	<u>(1,200)</u>
Profit Before Tax	9,900	13,000
Tax Expense	<u>(2,500)</u>	<u>(3,900)</u>
Net Profit	7,400	9,100

Statement of Financial Position as at 31 December

	2023 GH¢'000	2022 GH¢'000
Property, Plant & Equipment	22,000	25,000
Goodwill	<u>-</u>	<u>3,000</u>
	22,000	28,000
Current Assets		
Inventory	4,500	6,000
Trade Receivables	1,800	3,200
Cash at Bank	<u>2,200</u>	<u>-</u>
	<u>8,500</u>	<u>9,200</u>
Total Assets	<u>30,500</u>	<u>37,200</u>
Equity		
Equity Share Capital (GH¢1 each)	15,000	15,000
Retained Earnings	<u>5,500</u>	<u>7,000</u>
	<u>20,500</u>	<u>22,000</u>
Liability		
12% Loan Notes	6,000	10,000
Bank Overdraft	<u>-</u>	<u>2,000</u>
Accounts Payable	3,000	2,500
Current Tax Payable	<u>1,000</u>	<u>700</u>
	<u>10,000</u>	<u>15,200</u>
Total Equity and Liabilities	<u>30,500</u>	<u>37,200</u>

Additional Information:

- 1) On 1 January 2023, Ben Garzy LTD completed the sale of a business unit for GH¢10 million, resulting in a gain of GH¢2 million. This sale was approved by shareholders, who received a special dividend of GH¢0.50 per share from the proceeds. The business unit's financial performance included in the 2022 income statement was as follows:
 - Revenue: GH¢20,000
 - Cost of Sales: GH¢12,000
 - Gross Profit: GH¢8,000
 - Distribution Costs: GH¢1,500
 - Administrative Expenses: GH¢2,000
 - Profit Before Interest and Tax: GH¢4,500
- 2) During 2023, Ben Garzy LTD deployed an advanced IT system across its operations to enhance efficiency, reduce costs and improve financial reporting accuracy. This development is expected to influence the company's financial metrics and operational outcomes.
- 3) The following financial ratios were calculated for Ben Garzy LTD for the year ended 31 December 2022:

Gross Profit Margin	40.0%
Operating Profit Margin	21.7%
Return on Capital Employed (ROCE)	50.0%
Net Asset Turnover	2.0 times

Required:

- a) Compute the comparable financial ratios for Ben Garzy LTD;
 - i) For the year ended 31 December 2022, excluding the financial contribution of the sold business unit. **(6 marks)**
 - ii) For the year ended 31 December 2023, excluding the gain on the sale of the business unit. **(6 marks)**
- b) Assess the financial performance and position of Ben Garzy LTD as at 31 December 2023, taking into consideration the effects of the business unit sale and the implementation of the new IT system on the company's operational efficiency and overall financial health. **(8 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) Explain the elements of financial statements and indicate how an item can be recognised as an element. **(5 marks)**
- b) The principle of recording the substance of transactions rather than their legal form lies at the heart of the IASB's Conceptual Framework for Financial Reporting as well as numerous International Financial Reporting Standards.

Required:

- i) Explain why it is important to record the substance rather than the legal form of transaction. **(2 marks)**
- ii) Describe **TWO** features that may indicate that the substance of a transaction is different from its legal form. **(3 marks)**
- c) Sustainable development as defined by the UN World Commission on Environment and Development, is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Required:

- i) Explain the term **sustainability** in a business setting. **(2 marks)**
- ii) Explain the **THREE** core areas of sustainability. **(3 marks)**
- d) Ahiati LTD (Ahiati) is one of the leading manufacturers of pharmaceuticals in West Africa. Ahiati has a customer in Mexico called Taco. Ahiati made a credit sale to Taco on 1 October 2024 for Mex\$100,000. Ahiati received part payment on 30 November 2024 of Mex\$60,000. The following exchange rates applied during the financial year:

1 October 2024	GH¢1 = Mex\$1.25
30 November 2024	GH¢1 = Mex\$1.20
31 December 2024	GH¢1 = Mex\$1.10

Required:

- i) Prepare journal entries to show how the above transactions should be recorded in the books of Ahiati for the year ended 31 December 2024. **(4 marks)**
- ii) Show the financial reporting treatment of the foreign exchange gain or loss at the 31 December 2024 for Ahiati. **(1 mark)**

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

ABA GROUP
CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR
ENDED 31 DECEMBER 2024

	GH¢000
Sales revenue (200,500 + 50,500 - 4,600 - 5,000)	241,400
Cost of sales (110,000+24,000 – 4600 - 1,000 + 730)	(129,130)
Gross profit	112,270
Grant income (W6)	125
Admin. expenses (50,300+15,700+1,373)	(67,373)
Finance cost	(1,200)
Profit before tax	43,822
Income tax expense (5,450+2,200)	(7,650)
Profit for the year	36,172
Profit attributable to:	
Parent shareholders (balancing figure)	32,881
Non-controlling interest (W7)	3,291
Profit for the year	36,172

ABA GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31
DECEMBER 2024

	GH¢000
Non-current assets:	
Property, plant & equipment (40,500 + 35,000 -4,000+1,000)	73,500
Goodwill (W3)	12,357
	84,857
Current assets	
Inventories (10,500 + 12,000 – 730)	21,770
Trade and other receivables (20,000 + 2,500)	22,500
Cash and cash equivalents (12,500 + 550)	13,050
	57,320
Total Assets	142,177
Equity	
Share capital (GH¢1 per ordinary shares) (50,000 + 12,600)	62,600
Other component of equity (60% x 35,000 x 3/5 x GH¢0.2)	2,520
Retained earnings (W5)	42,881
NCI (W4)	17,501
	125,502

Deferred grant (W6)	4,875
Non-current liabilities	
Long-term borrowings (5,600 + 800)	6,400
Current liabilities	
Trade and other payables (4,750 +650)	5,400
Total Equity and Liabilities	142,177

WORKINGS (IN GH¢'000)

1 Group structure

Aba Parent's interest = 60%
 ↓60% NCI = 40%
 Boafo Acquisition was 1 year ago.

2 Fair Value of the Identifiable Net Assets of the Subsidiary

	At Acq'n	At Year-end	Post- acq'n
Share capital	35,000	35,000	-
Retained earnings	5,000	13,600	8,600
Fair value adjustments:			
Plant	(4,000)	(4,000)	-
Excess depreciation (4,000 x 1/4 x 1)		1,000	1,000
	36,000	45,600	9,600

3 Goodwill

Fair value of Parent's Investment:

Shares (60% x 35,000 x 3/5 x GH¢1.2)	15,120
Cash	<u>20,400</u>
	35,520
Fair value of NCI at acquisition (40% x 35,000 x GH¢1.015)	14,210
Less Fair value of net assets at acquisition (W2)	<u>(36,000)</u>
Goodwill at Acquisition	13,730

Less Impairment loss (10% x 13,730)	<u>(1,373)</u>
Goodwill at Reporting date	<u>12,357</u>

4 NCI

Fair value of NCI at acquisition	14,210
Plus NCI% of Sub's post-acqn profit (40% x 9,600)	3,840
Less Share of Impairment loss (40% x 1,373)	<u>(549)</u>
	<u>17,501</u>

5 Group Retained Earnings

Parent's (10,000 + 33,550)	43,550
Less Purp $[(4,600 - 2,500) \times (4,600 - 3,000)/4,600]$	(730)
Grant income released (5,000/20 x 6/12)	125
Less Grant credited in error	(5,000)
Plus Share of Sub's post-acqn profit (60% x 9,600)	5,760
Less Share of Impairment loss (60% x 1,373)	<u>(824)</u>
	<u>42,881</u>

6 Deferred Grant

Grant received (building)	5,000
Less Grant income released (W5)	(125)
Deferred grant at 31 December 2024	<u>4,875</u>
ALLOWED ALTERNATIVE	
PRESENTATION	
Candidates may present the grant as a liability:	
Current liability (5,000/20) or (4,875/19.5)	250
Non-current liability (4,875 - 250)	<u>4,625</u>
	<u>4,875</u>

7 Profit for the year Attributable to NCI

Subsidiary's profit for the year	8,600
Adjustments for:	
Excess Depreciation on FV Adjustment	1,000
Impairment loss	<u>(1,373)</u>
Adjusted Profit	8,227
x NCI%	<u> </u>
	<u>3,291</u>
	(20 marks)

EXAMINER'S COMMENTS

Question One required candidates to prepare a Consolidated Statement of Profit or Loss and a Consolidated Statement of Financial Position for a Parent and a Subsidiary. However, overall performance on this question was below expectation, with many candidates scoring less than 5 out of 20 marks.

While some candidates demonstrated competence in the numerical aspects of the question, a significant number struggled with the correct presentation and structure of consolidated financial statements. This weakness was widespread and suggests a lack of emphasis on the structure and format of financial statements during preparation.

Guidance for Future Exams

- a) Master the Structure and Presentation:
 - Carefully study the format and structure of consolidated financial statements as per IFRS.
 - Candidates are advised to make use of examination materials on ICAG website.
 - Practice preparing complete statements, ensuring correct classifications and disclosures.
- b) Study Key IFRS Standards:
Candidates must ensure thorough coverage of the following standards:
 - IAS 27 – Separate Financial Statements
 - IAS 28 – Investments in Associates and Joint Ventures
 - IFRS 3 – Business Combinations
 - IFRS 10 – Consolidated Financial Statements
 - IFRS 11 – Joint Arrangements
 - IFRS 12 – Disclosure of Interests in Other Entities
 - IFRS 13 – Fair Value Measurement
- c) Improve Practical Application:
 - Work on past questions and mock exams to reinforce consolidation techniques.
 - Pay special attention to goodwill calculations, elimination of intra-group balances, and NCI adjustments.

QUESTION TWO

a)

- i) The principal situations in which net realisable value is likely to be less than cost is where there has been;
 - An increase in costs or a fall in selling price
 - Physical deterioration of inventories
 - Obsolescence of products
 - A decision as part of a company's marketing strategy to manufacture and sell products at a loss
 - Errors in production or purchasing

(4 relevant points for 2 marks)

ii) **Working - Closing Inventory**

	GH¢
Total Inventories at Cost per Inventory Count	345,000
Accidentally Destroyed Inventory	(4,600)
Damaged Inventories - Cost	(2,900)
NRV - Selling Price less costs to sell (2,400 - 600)	1,800
Inventory Write Down	(1,100)
Value of Closing Inventories in SOFP (current asset)	<u>339,300</u>

Statement of profit or loss for the year ended 31 December 2024

	GH¢
Cost of sales:	
Inventories write-off (4,600 + 1,100)	(5,700)

(4 marks)

b)

- i) Under IAS 23, borrowing costs should be capitalised when three conditions are met:
 - 1) Borrowing costs are being incurred;
 - 2) Expenditure is being incurred on the qualifying asset; and
 - 3) Activities are taking place to construct the asset.

(2 marks)

- ii) Here, (1) and (2) are taking place all year. Construction activities were not taking place for August and September 2023, and for 1 month during the breaks. Hence there was 9 months activity, and $9/12$ of the interest cost should be capitalised. $5\% * \text{GH¢}40 \text{ million} * 9/12 = \text{GH¢}1.5 \text{ million}$

(3 marks)

c) Disclosure requirements of IAS 12

- The major components of tax expense (income) shall be disclosed separately.
- The aggregate current and deferred tax relating to items that are charged or credited directly to equity.
- The amount of income tax relating to each component of other comprehensive income.
- An explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms: (i) a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s),

disclosing also the basis on which the applicable tax rate(s) is (are) computed; or (ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed.

- An explanation of changes in the applicable tax rate(s) compared to the previous accounting period;
- The amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the statement of financial position.
- The aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements, for which deferred tax liabilities have not been recognised.

(3 relevant points for 3 marks)

(d) Split of Liability and equity components

Period	Description	CF(GHS'000)	Cummulative DF@5.5%	PV (GHS'000)
1 to 8	Interest	900	6.3346	5,701.14
8	Principal	20,000	0.6516	<u>13,032.00</u>
FV of Liability component = Sum of PVs				18,733.14
FV of Equity component				<u>1,266.86</u>
Proceeds of issue				20,000.00

Period 8 Discount factor = 6.3346 - 5.6830 = 0.6516

Entries on initial recognition:	GH¢'000	GH¢'000
DR Bank	20,000.00	
CR Financial Liability		18,733.14
CR Other component of equity		1,266.86

Subsequent measurement of the liability component at y/e

Year	Period end	Opening bal.	Int. @ 5.5%	Payments	Closing bal.
2023	Jun-23	18,733.14	1,030.32	(900)	18,863.46
	Dec-23	18,863.46	1,037.49	(900)	19,000.95
2024	Jun-24	19,000.95	1,045.05	(900)	19,146.01
	Dec-24	19,146.01	1,053.03	(900)	19,299.04

Akweley LTD**Statement of Financial Position as at 31 December 2024****GHS'000****Equity:**

Other component of equity 1,266.86

Non-current liability:

Financial liability 19,299.04

(6 marks)**(Total: 20 marks)****EXAMINER'S COMMENTS**

Question 2 assessed candidates' knowledge of the contents and application of the following IFRSs: *IAS 2 – Inventories, IAS 23 – Borrowing Costs, IAS 12 – Income Taxes, IFRS 9 Financial Instruments*

Few candidates performed well in parts (a) and (b), demonstrating a good understanding of the core concepts. However, performance declined in parts (c) and (d):

- Question 2(c): Focused on the disclosure requirements of IAS 12 (Income Taxes). Many candidates did not attempt this part, resulting in zero marks.
- Question 2(d): Required candidates to analyse a convertible bond under IAS 32/IFRS 9. This was poorly answered, with most candidates scoring zero, indicating a lack of understanding of financial instruments.

Guidance for Future Exams:

To improve performance in future exams, candidates should focus on the following strategies:

- a) Develop a strong conceptual understanding of IFRSs
 - Instead of memorizing formulas, focus on understanding the principles behind IFRS standards.
 - Study how different standards interact in practical business scenarios.
- b) Enhance practical application through scenario-based questions
 - Work on case studies and past questions that test real-world IFRSs applications.
 - Practice IFRS-based questions that require interpretation rather than just recall.
- c) Pay attention to disclosure requirements
 - Review disclosure requirements in IFRS, particularly in the 2.1 Syllabus
 - Understand the structure of financial statements and how to present required disclosures.
- d) Improve understanding of financial instruments (IFRS 9)
 - Study convertible bonds, equity vs. liability classification, and financial instrument presentation.
 - Work on numerical examples that illustrate the split accounting approach for convertible debt and subsequent measurement and recognition in the financial statements

QUESTION THREE

HALIDU LTD.

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR
ENDED 30 JUNE 2024**

	GH¢'000
Revenue (W1)	3,057,600
Cost of sales (W2)	<u>(1,969,512)</u>
Gross profit	1,088,088
Other income: Profit on disposal (W3)	10,560
Distribution costs	(45,600)
Administration expenses (W10)	<u>(123,800)</u>
Operating profit	929,248
Finance costs	<u>(28,800)</u>
Profit before tax	900,448
Income tax expense (W6)	<u>(64,200)</u>
Profit for the year	836,248
Other comprehensive income:	
Gain on property revaluation (net of tax)	<u>348,750</u>
Total comprehensive income for the year	<u>1,184,998</u>

HALIDU LTD.
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE
2024

GH¢'000

ASSETS

*Non-current
assets:*

Property, plant and equipment (W7) 1,820,448

Licence (W8) 96,000

1,916,448

Current assets:

Inventory (W11) 160,800

Operation held for sale
(W9) 135,000

Trade receivables (W12) 250,200

546,000

Total Assets **2,462,448**

**EQUITY AND
LIABILITIES**

Equity:

Share capital 420,000

Revaluation surplus 413,250

Retained earnings 918,448

1,751,698

Non-current liabilities:

12% Loan note 240,000

Deferred tax (W4) 116,250 356,250

*Current
liabilities:*

Trade Payables (W13) 266,600

Income tax
payable 76,200

Bank overdraft 11,700

354,500

Total Equity and Liabilities	<u>2,462,448</u>
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HALIDU LTD.

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED
30 JUNE 2024**

	Share capital GH¢'000	Revaluation surplus GH¢'000	Retained earnings GH¢'000	Total GH¢'000
Balance at 1 July 2023	420,000	78,000	68,700	566,700
Total comprehensive income for the year		348,750	836,248	1,184,998
Transfer to realised reserve (W5)	<u>–</u>	<u>(13,500)</u>	<u>13,500</u>	<u>–</u>
Balance at 30 June 2024	<u>420,000</u>	<u>413,250</u>	<u>918,448</u>	<u>1,751,698</u>

WORKINGS (in GH¢'000)

1 Revenue

Per trial balance	3,120,000
Less "Sale or return basis" sales	<u>(62,400)</u>
<u>3,057,600</u>	

2 Cost of sales

Per trial balance	1,757,400
Less "Sale or return basis" sales (62,400 x 100/130)	(48,000)
Reversal of Proceeds of sale of Plant	72,000
Depreciation & Amortisation:	
Building (1,440,000 - 360,000)/(40 - 10)	36,000
Plant and equipment ((1,011,600 - 120,000 - 138,000) - (291,600 - 58,560) x 20%)	104,112
Licence (240,000 x 20%)	<u>48,000</u>
	<u>1,969,512</u>

3 Plant disposal

Year-end 30 June 2021

Cost	120,000	
Depreciation (120,000 x 20%)	<u>(24,000)</u>	24,000

Carrying amount 96,000

Year-end 30 June 2022

Depreciation (96,000 x 20%)	<u>(19,200)</u>	19,200
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Carrying amount 76,800

Year-end 30 June 2023

Depreciation (76,800 x 20%)	<u>(15,360)</u>	15,360
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Carrying amount/ Accumulated depreciation	61,440	<u>58,560</u>
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Proceeds of sale 72,000

Profit on disposal **10,560**

4 Revaluation of Property

Revalued amount 1,440,000

Carrying amount (1,200,000 - 225,000) 975,000

Gain on revaluation 465,000

Deferred tax@25% (116,250)

Gain on property revaluation (net of tax) **348,750**

5 Transfer to Realised Reserve

Depreciation on original cost (1,200,000 - 300,000)/40 22,500

Depreciation on revalued amount (1,440,000 - 360,000)/30 36,000

Excess depreciation transferred **13,500**

Alternatively,

Valuation of building element (1,440,000 - 360,000) 1,080,000

Cost of building (1,200,000 - 300,000)	900,000
Accum. Depreciation	(225,000)
Carrying amount of building element	<u>675,000</u>
Gain on revaluation of building element	<u>405,000</u>
Transfer to realised reserve	
(405,000/30)	<u>13,500</u>

6 Income tax expense

Estimated income tax for the year	76,200
Over provision of tax in previous year	(12,000)
	<u>64,200</u>

7 PPE Schedule

	Property GH¢'000	Plant & Equip't GH¢'000	Total GH¢'000
COST/VALUATION:			
At 1 July 2023	1,200,000	1,011,600	2,211,600
Valuation gain	465,000		465,000
Reclassified as Held for sale		(138,000)	(138,000)
Disposal		(120,000)	(120,000)
At 30 June 2024	<u>1,665,000</u>	<u>753,600</u>	<u>2,418,600</u>
ACCUM. DEPRECIATION:			
At 1 July 2023	225,000	291,600	516,600
Charge for the year	36,000	104,112	140,112
Disposal		(58,560)	(58,560)
At 30 June 2024	<u>261,000</u>	<u>337,152</u>	<u>598,152</u>
CARRYING AMOUNT:			
At 30 June 2023	975,000	720,000	1,695,000
At 30 June 2024	<u>1,404,000</u>	<u>416,448</u>	<u>1,820,448</u>

8 Licence

Cost	240,000
Accumulated amortisation (96,000 + 48,000)	<u>(144,000)</u>
Carrying amount	<u>96,000</u>

9 Operation held for sale

Carrying amount of assets and liabilities:

Plant and equipment	138,000
Trade receivables	<u>9,000</u>
	147,000
Less Trade payables	<u>(7,000)</u>
	140,000
Net realisable value/ Fair value less disposal cost	<u>135,000</u>

Impairment loss recognised**5,000**

The 'Operation held for sale' is carried in the statement of financial position at the lower of carrying amount and net realisable value (fair value less disposal cost) of **GH¢135 million**.

10 Administration expenses

Per trial balance	118,800
Impairment loss recognised (W9)	<u>5,000</u>
	<u>123,800</u>

11 Inventory

Per trial balance	112,800
Cost of goods sold on 'Sale or return basis'	<u>48,000</u>
	<u>160,800</u>

12 Trade receivables

Per trial balance	259,200
Reclassified as held for sale	<u>(9,000)</u>
	<u>250,200</u>

13 Trade payables

Per trial balance	211,200
Reclassified as held for sale	(7,000)
Advances from customers/Sales on 'sale or return basis'	<u>62,400</u>
	<u>266,600</u>

(20 marks)

EXAMINER'S COMMENTS

The question was straightforward, unfortunately, only a few candidates were able to score more than 10 marks out of 20.

The key challenges identified were:

- ✓ **Lack of proper workings:** Many candidates did not show clear and structured calculations, leading to incorrect final figures.
- ✓ **Poor knowledge of IFRS principles:** Some candidates failed to apply relevant standards correctly, particularly regarding sale or return transactions, IFRS 5, and tax accounting.
- ✓ **Errors in classification and presentation:** Mistakes in the statement formats and misplacement of items resulted in lost marks.

Guidance for future questions in this area

To perform better in similar financial reporting questions, candidates should:

- **Understand IFRS principles thoroughly** – Focus on key standards such as IFRS 15 (Revenue), IFRS 5 (Discontinued Operations), IAS 16 (PPE), and IAS 12 (Taxation).
- **Show detailed workings** – Break down calculations clearly, labeling figures appropriately to demonstrate logical steps.
- **Follow correct statement formats** – Ensure proper headings, sub-totals, and classifications in line with IFRS presentation requirements.
- **Apply correct accounting treatments** – Pay attention to adjustments for revaluations, disposals, depreciation, deferred tax, and inventory valuation.
- **Manage time effectively** – Allocate time wisely to cover all required statements and supporting calculations.
- **Practice past exam questions** – Regularly working on similar structured questions improves familiarity and accuracy.

QUESTION FOUR

a) Calculation of Adjusted Financial Ratios

i) Adjusted Ratios for the Year Ended 31 December 2022 (Excluding the Sold Business Unit)

Adjusted Figures:

Revenue: GH¢60,000 - GH¢20,000 = GH¢40,000

Cost of Sales: GH¢36,000 - GH¢12,000 = GH¢24,000

Gross Profit: GH¢24,000 - GH¢8,000 = GH¢16,000

Distribution Costs: GH¢6,000 - GH¢1,500 = GH¢4,500

Administrative Expenses: GH¢3,800 - GH¢2,000 = GH¢1,800

Profit Before Interest and Tax (PBIT): GH¢13,000 + 1,200 - GH¢4,500 = GH¢9,700

1) **Gross Profit Margin:** Gross Profit Margin = (Gross Profit / Revenue) × 100

$$(\text{GH¢16,000} / \text{GH¢40,000}) \times 100 = 40.0\%$$

2) **Operating Profit Margin:** Operating Profit Margin = (PBIT / Revenue) × 100

$$(\text{GH¢9,700} / \text{GH¢40,000}) \times 100 = 24.25\%$$

3) **Return on Capital Employed (ROCE):** ROCE = (PBIT / (Total Assets – Current Liabilities)) × 100

Total Assets – Current Liabilities (adjusted): GH¢37,200 - GH¢5,200 = GH¢32,000 = $(\text{GH¢9,700} / \text{GH¢32,000}) \times 100 = 30.31\%$

4) **Net Asset Turnover:** Net Asset Turnover = Revenue / (Total Assets – Total Liabilities) = GH¢40,000 / GH¢22,000 (37,200-15,200) = 1.82 times

(6 marks)

ii) Adjusted Ratios for the Year Ended 31 December 2023 (Excluding the Gain from the Sale of the Business Unit)

Adjusted Figures: PBIT (adjusted): GH¢9,900 + 600 - GH¢2,000 = GH¢8,500

1) **Gross Profit Margin:**

- **Formula:** Gross Profit Margin = (Gross Profit / Revenue) × 100
- **Calculation:** $(\text{GH¢18,000} / \text{GH¢45,000}) \times 100 = 40.0\%$

2) **(Operating Profit Margin: Operating Profit Margin = (PBIT / Revenue) × 100**

$$(\text{GH¢8,500} / \text{GH¢45,000}) \times 100 = 18.89\%$$

3) **Return on Capital Employed (ROCE): (PBIT / (Total Assets – Current Liabilities)) × 100**
Total Assets – Current Liabilities: GH¢30,500 - GH¢4,000 = GH¢26,500
Calculation: (GH¢8,500 / GH¢26,500) × 100 = 32.08%

4) **Net Asset Turnover: Net Asset Turnover = Revenue / (Total Assets – Total Liabilities) = GH¢45,000 / GH¢20,500 (30,500-10,000) = 2.2 times**
(1.5 per ratio x 8 ratios) = (6 marks)

b) **Assessment of Financial Performance and Position of Ben Garzy LTD as of 31 December 2023**

Ben Garzy LTD has undergone significant changes in its financial and operational landscape between the fiscal years ending 31 December 2022 and 31 December 2023. These changes were driven primarily by the sale of a key business unit and the implementation of a new information technology (IT) system aimed at enhancing operational efficiency. The impact of these strategic decisions is evident in the company's financial performance and position, which must be evaluated to understand how well Ben Garzy LTD has adapted to its new structure.

Impact on Profitability

The sale of the business unit in early 2023 brought an immediate financial benefit in the form of a GH¢2 million gain, which contributed to the year's profitability. However, when this non-recurring gain is excluded, Ben Garzy LTD's underlying profitability reveals a mixed picture.

The gross profit margin remained steady at 40.0% in both years, reflecting the company's ability to maintain consistent profitability from its core operations despite the reduction in overall revenue following the sale. This suggests that Ben Garzy LTD has been successful in managing its production costs relative to sales, even as the scale of its operations decreased.

However, the operating profit margin tells a different story. After adjusting for the one-time gain, the operating profit margin for 2023 drops to 18.89%, down from the adjusted 24.25% in 2022. This decline indicates that the company has struggled to control its operating expenses—namely, distribution and administrative costs—relative to its reduced revenue base. The decrease in operating efficiency could be attributed to the fixed nature of some costs, which remained relatively high despite the downsized operations. The implementation of the new IT system, while aimed at enhancing efficiency, may not have fully offset these costs during its first year of deployment.

Return on Capital Employed (ROCE)

The ROCE is a critical measure of how effectively a company uses its capital to generate profit. For Ben Garzy LTD, the ROCE increased from an adjusted 30.31% in 2022 to 32.08% in 2023. While the ROCE in 2023 is still a strong indicator of the company's efficiency in using its capital, the overall downward trend as a result of the disposal of the business unit (from 44.38% in 2022 to 30.31% (adjusted) to 32.08% in 2023) is a cause for concern.

This decline in ROCE, even after the gain from the sale is excluded, suggests that Ben Garzy LTD has not yet fully optimized its remaining capital base post-sale. The company now operates with fewer assets, yet it has not significantly improved its return on those assets, which could imply underutilization of the remaining resources or inefficiencies that have not been fully addressed.

Net Asset Turnover

The net asset turnover ratio, which measures how efficiently a company generates revenue from its assets, improved from 1.82 times in 2022 (adjusted) to 2.2 times in 2023. This increase indicates that Ben Garzy LTD has become more effective in using its reduced asset base to generate sales. The introduction of the IT system likely contributed to this improvement by streamlining operations and enhancing productivity, allowing the company to generate more revenue per unit of asset.

This improvement in asset turnover is a positive sign and suggests that Ben Garzy LTD is on the right track in terms of maximizing the efficiency of its operations following the sale of the business unit. However, it also underscores the importance of continuing to leverage technology and process improvements to sustain and further enhance operational efficiency.

Conclusion

In summary, Ben Garzy LTD has shown resilience in maintaining a stable gross profit margin and improving its asset turnover following significant structural changes. However, the company faces challenges in controlling operating expenses, as evidenced by the decline in operating profit margin and the mixed results in ROCE. The impact of the new IT system, while positive in some areas, has not yet fully translated into the expected cost savings or enhanced profitability.

Moving forward, Ben Garzy LTD should focus on fully integrating its IT system to realize the anticipated efficiency gains and cost reductions. Additionally, the company should continue to explore ways to optimize its remaining capital base and improve its return on capital employed to sustain long-term growth and profitability. The strategic decisions made in 2023 have set the foundation for a leaner and potentially more efficient operation, but further efforts are needed to fully capitalize on these changes.

(8 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question required candidates to compute some ratios and to use the results to analyse the financial performance and position of an entity, after adjusting for the effect of a disposal of a business segment/unit.

The question was very clear in meaning. Candidates were expected to use formulas known to them to answer this question. Most candidates quoted the formulas correctly but could not adjust the results to exclude the effect of the discontinued business unit. However, some candidates were able to do a good assessment of the performance and position for the entity.

QUESTION FIVE

a) **Elements of financial statements and how they can be recognised.**

Asset definition

A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Liability definition

A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Equity definition

The residual interest in the assets of the entity after deducting all its liabilities.

Income definition

Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

Expense definition

Decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

Recognition of the elements of financial statements

Recognition is the process of incorporating in the statement of financial position or statement of profit or loss an item that meets the definition of an element and satisfies the following criteria for recognition:

- It is probable that any future economic benefit associated with the item will flow to or from the entity; and
- The item's cost or value can be measured with reliability.

Based on these general criteria:

- **An asset** is recognised in the statement of financial position when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.
- **A liability** is recognised in the statement of financial position when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.
- **Income** is recognised in the statement of profit or loss when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably. This means, in effect, that recognition of income occurs simultaneously with the recognition of increases in assets or decreases in liabilities (for example, the net increase in assets arising on a sale of goods or services or the decrease in liabilities arising from the waiver of a debt payable).

- **Expenses** are recognised when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets (for example, the accrual of employee entitlements or the depreciation of equipment).

(5 marks)

b)

- i) One of the primary characteristics of financial statements is reliability, i.e. they must faithfully represent the transactions and other events that have occurred. It can be possible for the economic substance of a transaction to be different from its strict legal position or 'form'. Thus financial statements can only give a faithful representation of a company's performance if the substance of its transactions is reported.
It is worth stressing that there will be very few transactions where their substance is different from their legal form, but for those where it is, they are usually very important. This is because they are material in terms of size or incidence, or because they may be intended to mislead.

(2 marks)

- ii) Common features which may indicate that the substance of a transaction (or series of connected transactions) is different from its legal form are:
 - Where the ownership of an asset does not rest with the party that is expected to experience the risks and reward relating to it (i.e. equivalent to control of the asset).
 - Where a transaction is linked with other transactions. It is necessary to assess the substance of the series of connected transactions as a whole.
 - The use of options within contracts. It may be that options are either almost certain to be (or not to be) exercised. In such cases these are not really options at all and should be ignored in determining commercial substance.
 - Where assets are sold at values that differ from their fair values (either above or below).

Many complex transactions often contain several of the above features. Determining the true substance of transactions can be a difficult and sometimes subjective procedure.

(2 relevant points @ 1.5marks each = 3 marks)

c)

- i) In a business setting, "sustainability" means operating a company in a way that minimizes negative environmental and social impacts while ensuring long-term economic viability, essentially balancing the needs of the planet, people, and profit through practices that don't deplete resources or harm communities for future generations. It involves integrating environmental, social, and economic considerations into everyday business operations and strategies.

In business, sustainability refers to doing business without negatively impacting the environment, community, or society as a whole.

It also refers to a company's strategy and actions to reduce adverse environmental and social impacts resulting from business operations in a particular market.

An organization's sustainability practices are typically analyzed against environmental, social and governance (ESG) metrics.

(2 marks)

ii) **The Core Areas of Sustainability**

The core areas of sustainability, often referred to as the "three pillars," are environmental (planet) sustainability, social (people) sustainability, and economic (profit) sustainability; essentially focusing on protecting the planet, ensuring social equity, and maintaining economic viability, all in a balanced way to meet the needs of the present without compromising future generations.

Environmental sustainability (Planet)

- This pillar focuses on minimizing environmental damage by responsible resource management, reducing pollution, conserving biodiversity, and mitigating climate change.

Social sustainability (People)

- This pillar addresses issues like human rights, equitable access to resources, community well-being, quality of life, and fair labor practices.

Economic sustainability (Profit)

- This pillar aims to maintain long-term economic growth by promoting efficient resource use, sustainable business practices, and equitable distribution of wealth.

(3 points for 3 marks)

d) The accounting treatment for the transactions for the year-ending 31 December 2024 are as follows:

30.11.2024	Dr. Bank – SOFP GH¢50,000
	Cr. Trade Receivables – SOFP GH¢50,000
	Accounting for receipt at foreign exchange rate of GHS1 = Mex\$ 1.20

31.12.2024	Dr. Trade Receivables – SOFP (See Below)
	Cr. Foreign Exchange Gain – SOPL & OCI 6,363.60

(4 marks)

Calculation of Foreign Exchange Gain at 31.12.2024	
Balance per Trade Receivables	30,000
Balance due in Mex\$ ($100,000 - 60,000 = 40,000$)	36,363.60
@ 31.12.2024 GH¢1 = Mex\$ 1.10	

Foreign Exchange Gain	6,363.60
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(1 mark)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question required candidates to demonstrate knowledge in the content and application of the IASB Conceptual Framework for Financial Reporting, Sustainability and IAS 21. Many candidates provided good answers to each parts of the question.

FINANCIAL REPORTING EXAMINATION PREPARATION TIPS

Practice Extensively

- Read the key concepts thoroughly and solve as many past questions as possible.
- Focus on both comprehension and application of IFRS principles.

Enhance IFRS Knowledge

- Focus on IFRS principles, especially frequently examined IFRSs
- Read the IFRS Standards regularly to reinforce your understanding.

Improve Application Skills

- Success depends on both knowledge and the ability to apply IFRS to different scenarios.
- Answer directly based on the requirements of the question—avoid unnecessary details.

Time Management

- Allocate time based on marks: Each mark requires approximately 1.8 minutes.
- For a 20-mark question, spend no more than 36 minutes.
- Time yourself while answering past questions to improve speed and accuracy.
- Attempt all questions—many candidates fail by leaving questions unanswered.

Practice Under Exam Conditions

- Review examiner reports to understand common mistakes and expected approaches.