E2NOVEMBER 2025 PROFESSIONAL EXAMINATIONS
FINANCIAL REPORTING (PAPER 2.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

EXAMINERS' GENERAL COMMENTS

The paper assessed candidates on key IFRS standards and financial reporting principles. The clarity of the questions was commendable, with no ambiguities or errors in the requirements. Overall, candidates were expected to demonstrate a high level of analytical and application skills in answering the questions.

The Financial Reporting syllabus assumes knowledge acquired in Financial Accounting and develops and applies this further and in greater depth. The syllabus begins with the regulatory, conceptual, ethical framework, and sustainability reporting. Other areas of the syllabus cover the reporting of financial information for single entities and for groups in accordance with relevant International Financial Reporting Standards. Finally, the syllabus covers the analysis and interpretation of information from financial reports.

STANDARD OF THE PAPER

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.

The consolidation question involved preparing the statement of profit or loss and the statement of financial position with adjustments on intra-group sales/purchases, provision for unrealized profit, fair value adjustments as well as dealing with an associate in line with IFRS 3 (Business Combinations) and IAS 28 (Investment in Associates and Joint Ventures).

The financial analysis question was sufficiently complex to test analytical skills and IFRS applications. The clarity of the requirements was excellent, with no ambiguity, and the questions met professional standards appropriate for ICAG examinations. In this diet, candidates were also examined on the preparation of a statement of changes in equity together with the statement of profit or loss and other comprehensive income, and statement of financial position of a single entity. All the questions were well-structured with clear instructions and relevant financial data.

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. Most candidates continue to show lack of understanding of the relevant IFRSs and so continue to perform very poorly in the paper.

NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES

Strengths:

- Most candidates performed well in Question 1 on Consolidated Financial Statements.
- Question 5 was generally well answered.

Weaknesses:

- Despite good scores in Question 1, many candidates struggled with the correct presentation of consolidated financial statements.
- A considerable number of candidates could not apply knowledge in IAS 37, IAS 38 and IAS 21 to answer the questions thereby affecting their performance greatly in Question 2.
- Question 3 on preparation of statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position poses the greatest challenge to most candidates. Some candidates did not appear to know the format and content of these three statements, as they failed to present their answers properly.
- Question 4 proved challenging to candidates. This is because of the adjustments required for some of the items in the financial statements.
- Many candidates failed to apply the relevant IFRSs correctly, highlighting the need for a stronger grasp of the standards.

QUESTION ONE

On 1 October 2023 Kupee PLC (Kupee), a listed company, acquired a 60% controlling interest in Groba PLC (Groba) paying GH¢9 per share in cash. At the date of acquisition, Kupee granted a 10% loan of GH¢4 million to Groba. Below are the financial statements of Kupee and Groba.

Statements of Profit or Loss for the year ended 31 March 2024

	Kupee GH¢'000	**Groba GH¢'000**
Revenue	98,000	85,400
Cost of sales	(76,000)	(62,000)
Gross Profit	**22,000**	**23,400**
Operating expenses	(11,800)	(16,000)
Interest income	350	-
Finance cost	(420)	(400)
Profit before tax	**10,130**	**7,000**
Income tax	(4,200)	(2,000)
Profit/(loss) for the period	**5,930**	**5,000**

Statements of Financial Position as at 31 March 2024

	Kupee GH¢'000	**Groba GH¢'000**
Non-current assets:		
Property, Plant & Equipment	18,400	9,500
Investments	16,000	–
	34,400	**9,500**
Current assets	18,000	19,200
Total assets	**52,400**	**28,700**
Equity:		
Ordinary shares GH¢1 each	10,000	2,000
Other reserves	5,000	500
Retained earnings	20,000	8,300
	35,000	**10,800**
Non-current liabilities:		
7% Bank loan	6,000	4,000
10% loan	–	4,000
	6,000	8,000
Current liabilities	11,400	9,900
	17,400	**17,900**
Total equity & liabilities	**52,400**	**28,700**

Additional information:

i) At the date of acquisition, the fair values of Groba's Property, Plant and Equipment were GH¢1.2 million in excess of their carrying amounts. This will have the effect of creating an additional depreciation charge (to cost of sales) of GH¢300,000 in the consolidated financial statements for the year ended 31 March 2024. Groba has not adjusted its assets to reflect their fair value.

ii) In the post-acquisition period, Groba's sales to Kupee were GH¢30 million on which Groba had made a consistent profit of 5% of the selling price. Of these goods, GH¢4 million (at selling price to Kupee) were still in the inventory of Kupee at 31 March 2024. Prior to its acquisition, Groba made all of its sales at a uniform gross profit margin.

iii) Included in Kupee's current liabilities is GH¢1 million owing to Groba. This agreed with Groba's receivables ledger balance for Kupee at the year end.

iv) An impairment review of the consolidated goodwill at 31 March 2024 revealed that its current value was 12.5% less than its carrying amount.

v) On 1 April 2023, Kupee acquired 30% interest in Draoh at a cost of GH¢3 million. Draoh made a profit of GH¢1.8 million for the year. This investment has not been recorded by Kupee.

(***Note: Assume all expenses and income accrued evenly throughout the period)***

Required:

a) Prepare a Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Kupee Group for the year ended 31 March 2024.

b) Prepare a Consolidated Statement of Financial Position for the Kupee Group as at 31 March 2024.

(Total: 20 marks)

QUESTION TWO

a) Solonlair is a Ghana based manufacturer and retailer of ice cream and frozen dairy products. The company had a licence valued at GH¢4 million in its draft statement of financial position as at 30 June 2025. The licence was purchased on 1 July 2022 for GH¢10 million and was valid for five years. Amortisation has been charged for each full year to 30 June 2025 (through cost of sales). A clause in the contract allows the licensor to withdraw the licence (with no compensation) if certain financial health measures are not maintained to protect its own brand.

Despite the refinancing, Solonlair failed these measures in the first half of 2025 and the licensor notified Solonlair in May 2025 that it would indeed withdraw the licence, effective 1 July 2025. For tax purposes, allowances for the cost of the licence are allowed on a straight line basis over the five-year period of the licence. The tax allowances for the cost of the licence are unaffected by the withdrawal of the licence.

Required:
Explain the financial reporting treatment of the above transaction in the books of Solonlair for the year ended 30 June 2025. **(4 marks)**

b) Joelogbore is a food and beverage company with a strong presence in Africa, known for its popular brands like Cowbell milk and Onga seasonings. For the year ended 30 June 2025, the inventories shown in the company's draft statement of financial position was at a cost of GH¢54.2 million. The inventory count revealed GH¢2.2 million (at cost) for out of date inventories that could no longer be sold, and will be disposed of, for no income. An additional cost of GH¢40,000 will be incurred to dispose of these inventories.

Inventory write-downs are not tax deductible when the inventories are sold or scrapped in the tax regime in which Joelogbore operates.

Required:
In accordance with ***IAS 2: Inventories,*** recommend the appropriate accounting treatment of the above transaction. **(4 marks)**

c) ***IAS 37: Provisions, Contingent Liabilities and Contingent Assets*** sets out the principles for recognising and measuring provisions. IAS 37 requires that, in cases where the time value of money is material, the provision be measured at present value at the reporting date.

Gontor PLC has an obligation to restore a site following the completion of mining works currently under way. The estimated cost of these works is GH¢30.225 million, and the works are expected to be completed on 1 April 2034. The present value of the restoration cost was recorded at GH¢14 million on 1 April 2024.

The company's cost of capital is 8%.

Required:
What adjustment should be recorded at 31 March 2025, to ensure the provision is correctly accounted for? **(3 marks)**

d) Tarnue Entertainment (Tarnue) is a Ghanaian record label founded in 2006 to provide services in artist management, music production, film and television production, event management and brand partnership. It has entered into the following transactions during the financial year ended 31 July 2025:

i) On 1 August 2024, Tarnue acquired the exclusive Ghanaian distribution rights for a unique home entertainment digital set-top box. The cost of the rights to Tarnue was GH¢2.1 million, and the term of the deal was 3 years.

ii) On 1 August 2024, Tarnue commenced work on promoting the brand and developing sales of the digital set-top box. This effort was hugely successful, and the "Tarnue" brand became massively popular and well known. Tarnue wishes to include the brand in its financial statements for year ended 31 July 2025 at its estimated fair value of GH¢12 million.

iii) Tarnue wishes to replicate its Ghanaian success in other countries by selling the product into other markets. The company has spent GH¢500,000 during the year researching the West African market and wishes to capitalise this expenditure as an intangible asset.

Required:
In each of the scenarios (i) to (iii) above, outline the appropriate accounting treatment for the year ended 31 July 2025. **(6 marks)**

e) In accordance with ***IAS 21: The Effects of Changes in Foreign Exchange Rates***, distinguish between ***functional currency*** and ***presentation currency.*** **(3 marks)**

(Total: 20 marks)

QUESTION THREE

The following trial balance relates to Dorwelee LTD for the year ended 31 December 2024.

	GH¢'000	GH¢'000
Sales		640,000
Purchases	375,000	
Distribution expenses	40,000	
Administrative expenses (Note ii)	110,000	
Licence (Note iii)	25,000	
Inventories (31/12/2023)	131,000	
Finance costs on long term loan	15,000	
Income tax (Note iv)		1,000
Deferred tax (Note v)		30,000
Dividend paid on equity shares	10,000	
Property, Plant and Equipment - at cost	285,000	
Provision for depreciation on PPE (31/12/2023)		53,950
Trade receivables	220,000	
Bank balances	168,950	
Trade payables		60,000
Provision for legal costs (Note ii)		50,000
Long-term loan		200,000
Lease rentals (Note vi)	40,000	
Share capital		250,000
Retained earnings (31/12/2023)	-	135,000
	1,419,950	**1,419,950**

Additional information:

i) The carrying value of inventories at 31 December 2024 was GH¢115 million.

ii) Administrative expenses include a provision of GH¢50 million for the possible costs of a legal claim lodged against Dorwelee LTD by one of its customers before 31 December 2024. The directors of Dorwelee LTD consider that it is probable that Dorwelee LTD can successfully defend the case but they are providing for the worst possible outcome on the grounds of prudence. The provision of GH¢50 million is for the amount sought by the customer (GH¢48 million) plus the directors' best estimate of the legal costs incurred in defending the case. If Dorwelee LTD successfully defends the case, then based on the outcomes of similar cases in the past it is likely (but not certain) that the customer will be required to reimburse Dorwelee LTD for its legal costs.

iii) On 1 January 2024, Dorwelee LTD paid GH¢25 million for a ten-year export licence.

iv) The estimated income tax on the profits for the year to 31 December 2024 is GH¢12.5 million. During the year, GH¢11 million was paid in full and in final settlement of income tax on the profits for the year ended 31 December 2023. The statement of financial position as at 31 December 2023 had included GH¢12 million in respect of this tax liability.

v) A transfer of GH¢7 million is required to increase the deferred tax liability in the statement of financial position. GH¢4.5 million of this amount was necessary as a result of the taxable temporary difference caused by the property revaluation.

The details of Property, Plant and Equipment are as follows:

Component of PPE	***Cost*** **GH¢'000**	***Accumulated depreciation at 31/12/2023*** **GH¢'000**	***Carrying Amount at 31/12/2023*** **GH¢'000**
Land	60,000	-	60,000
Buildings	90,000	16,200	73,800
Plant and Equipment	135,000	37,750	97,250
	285,000	**53,950**	**231,050**

Estimate of useful economic life (at date of purchase) of PPE components:

Land	– nil (infinite life)
Building	– 50 years
Plant and Equipment	– 4 years

Depreciation of property, plant and equipment is allocated as follows:
80% to cost of sales
10% to distribution expenses
10% to administrative expenses

The above allocation excludes any depreciation charged on the leased asset (see note vi below) which should be fully charged to cost of sales.

On 1 January 2024 the Directors of Dorwelee LTD decided to revalue the property to its market value of GH¢200 million, including GH¢97.5 million for the land. The original estimate of the useful economic life of the property was still considered valid. The Directors wish to make an annual transfer of excess depreciation from the revaluation reserve to realised profits following the revaluation.

vi) On 1 January 2024 Dorwelee LTD began to lease a group of machines that were used in the production process. The lease was for five years, and the total annual rental (payable in arrears) was GH¢40 million. The lessor paid GH¢150 million for the machines on 31 December 2023. The lessor has advised Dorwelee LTD that the lease is a finance lease and that the rate of interest implicit in the lease can be taken as 10%.

Required:
Prepare for Dorwelee LTD,

a) The Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2024. **(8 marks)**
b) The Statement of Changes in Equity for the year ended 31 December 2024. **(4 marks)**
c) The Statement of Financial Position as at 31 December 2024. **(8 marks)**

(Total: 20 marks)

QUESTION FOUR

Gbarnga LTD, a holding company operating in the IT industry, is considering diversifying its portfolio by acquiring a subsidiary in the healthcare sector. Two companies - Buchanan LTD and Pleebo LTD - have been identified as potential acquisitions.

The following draft financial statements relate to Buchanan LTD.

Income Statement for the year Ended 31 December 2024

	GH¢	GH¢
Revenue		7,000,000
Cost of Goods Sold		
Opening Inventory	450,000	
Purchases	2,500,000	
Closing Inventory	(650,000)	
		(2,300,000)
Gross Profit		**4,700,000**
Other Income		50,000
Salaries & Wages		(1,250,000)
Utilities		(150,000)
Medical Equipment Maintenance		(50,000)
Depreciation		(250,000)
Administrative & General Expenses		(550,000)
Interest Expense		(150,000)
Profit Before Tax		**2,350,000**
Income Tax		(950,000)
Net Profit After Tax		**1,400,000**
Retained Profit for the Year		**1,400,000**

Statement of Financial Position as at 31 December 2024

	GH¢
Non-Current Assets	
Medical Equipment	3,300,000
Intangible Assets	320,000
	3,620,000
Current Assets	
Inventory	650,000
Accounts Receivable	800,000
Bank	1,200,000
Cash	50,000
	2,700,000
Total Assets	**6,320,000**
Equity and Liabilities	
Equity	
Share Capital	2,000,000
Retained Earnings	3,000,000
Total Equity	**5,000,000**
Non-Current Liabilities	
Long-term Loans	950,000
Current Liabilities	
Accounts Payable	250,000
Income Tax Payable	120,000
Total Liabilities	**1,320,000**
Total Equity & Liabilities	**6,320,000**

Additional information:

i) The Board of Gbarnga LTD at its most recent meeting engaged the services of a consultant to perform due diligence on the financial affairs of Buchanan LTD. From the due diligence report, the following were revealed:

- 10% of the sales of Buchanan LTD in 2024 (GH¢700,000) were made to Quinine LTD, which has wound up. These sales remain unpaid.
- The closing inventory included third-party inventory costing GH¢100,000.
- 5% of accounts receivable (GH¢40,000) should be written off as bad debt.

ii) The following ratios have been computed for Pleebo LTD, one of the targets in the acquisition:

Ratios	**Value**
Gross Profit Margin	59%
Operating Profit Margin	20%
Return on Capital Employed (ROCE)	31%
Current Ratio	4.5:1
Quick Ratio	3:1
Debtors Collection Period	1.5 days
Creditors Payment Period	50 days
Net Assets Turnover	1.3 times
Debt to Equity Ratio (Long-term debt/equity)	40%
Capital Gearing (Long-term debt/capital employed)	28%

Required:

a) Show the adjusting entries to reflect the due diligence findings. **(4 marks)**

b) Compute the comparable ratios for Buchanan LTD based on the due diligence findings. **(8 marks)**

c) Prepare a report to the board of Gbarnga using the ratios computed in (b). Since the two projects are mutually exclusive, advise the board whether to invest in Buchanan LTD or Pleebo LTD. **(8 marks)**

(Total: 20 marks)

QUESTION FIVE

a) Zorzor LTD is a Ghanaian listed company involved in large-scale timber and wood processing for export. In recent years, the company has faced increasing scrutiny from environmental groups and local communities over the depletion of forest resources and environmental degradation. In 2024, the Ghanaian government introduced new regulations that require companies in the timber industry to disclose environmental impacts and demonstrate compliance with sustainable practices.

Zorzor LTD is in the process of preparing its financial statements for the year ended 31 December 2024. Management is concerned about how climate-related risks, including potential litigation, fines, supply chain disruptions and the cost of adapting to regulatory changes, should be accounted for. Additionally, the board has requested an update on the global standard-setting developments on sustainability reporting and their implications for financial reporting.

Required:

i) Discuss the impact of sustainability and climate-related risks and opportunities on the preparation of financial statements in accordance with IFRS. **(6 marks)**

ii) Explain **TWO** actions taken by the International Accounting Standards Board (IASB) in relation to sustainability and climate-related disclosures. **(4 marks)**

b) Gbolor Foods LTD is a family-owned medium-sized agro-processing company located in Yendi. The company is led by Mr. Azumah Yeleduor, who is the Managing Director, and the board comprises only executive directors who are all family members. The company's board meets only once a year to approve the financial statements and dividends.

Recently, a whistleblower revealed that Mr. Yeleduor had been awarding contracts to a procurement firm owned by his cousin without full board approval. Also, Gbolor Foods LTD has no Audit Committee, and board decisions are rarely documented.

The company is currently seeking to be listed on the Ghana Alternative Market (GAX).

Required:

i) Identify and explain **THREE** governance issues at Gbolor Foods LTD. **(3 marks)**

ii) Highlighting on **TWO** issues, explain how the Ghana Corporate Governance Code (2020) applies to Gbolor Foods LTD. **(2 marks)**

c) ***IAS 41: Agriculture*** sets out the accounting for agricultural activity – the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets).

Required:

What is the initial measurement requirement for biological assets under IAS 41? ***(Include the measurement basis and where changes in value are recorded).*** **(5 marks)**

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

KUPEE GROUP
CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 MARCH 2024

	GH¢'000
Revenue (98,000 + 85,400x6/12 - 30,000)	110,700.00
Cost of sales (76,000 + 62,000x6/12 + 300 - 30,000 + 200)	(77,500.00)
Gross profit	**33,200.00**
Operating expenses (11,800 + 16,000x6/12 + 637.5)	(20,437.50)
Interest income (350 - 200)	150.00
Income from Associate (30% x 1,800)	540.00
Finance cost (420 + (400x6/12) - 200)	(420.00)
Profit before tax	**13,032.50**
Income tax (4,200 + 2,000x6/12)	(5,200.00)
Profit/(loss) for the year	**7,832.50**
Attributable to:	
Owners of the Parent (Balancing figure)	7,032.50
Non-controlling interests (W7)	800.00
Profit/(loss) for the year	**7,832.50**

KUPEE GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2024

	GH¢'000
ASSETS	
Non-current assets:	
Property, plant and equipment (18,400 + 9,500 + 1,200 - 300)	28,800.00
Goodwill (W3)	4,462.50
Investments (16,000 - 10,800 - 4,000)	1,200.00
Investment in Associate (W6)	3,540.00
	38,002.50
Current assets (18,000 + 19,200 - 200 - 1,000 - 3,000)	33,000.00
Total Assets	**71,002.50**
EQUITY AND LIABILITIES	
Equity:	
Ordinary shares GH¢1 each	10,000.00
Other reserves	5,000.00
Retained earnings (W5)	21,102.50
Equity attributable to owners of the parent	36,102.50
Non-controlling interests (W4)	4,600.00
Total Equity	**40,702.50**
Non-current liabilities:	
7% Bank loan (6,000 + 4,000)	10,000.00
10% Loan (4,000 - 4,000)	-
	10,000.00
Current liabilities (11,400 + 9,900 - 1,000)	20,300.00
	30,300.00
Total Equity and Liabilities	**71,002.50**

WORKINGS (IN GH¢'000)

1 Group structure

	Parent's interest =	
Kupee	60%	**Kupee**
↓ 60%	NCI = 40%	**↓ 30% (Acquired 1 year ago.)**
Groba	Acquisition was 6 months ago.	**Draoh**

2 Fair Value of Identifiable Net Assets of the Subsidiary

	At Acq'n	**At Y/E**	**Post-acqn**
Ordinary shares	2,000	2,000	-
Other reserves	500	500	-
Retained earnings (8,300 - 5,000 x 6/12)	5,800	8,300	2,500
FV Adjustment - PPE	1,200	1,200	-
Additional depreciation		(300)	(300)
PURP on Inventory (4,000 x 5%)		(200)	(200)
	9,500	**11,500**	**2,000**

3 Goodwill

Fair value of Parent's investment (60% x 2,000 x 9)	10,800
NCI at Acquisition as a proportion net assets (40% x 9,500)	3,800
Less FV of net assets at acquisition (W2)	(9,500)
Goodwill at acquisition	5,100
Less Impairment loss (12.5% x 5,100)	(637.50)
Goodwill at reporting date	**4,462.50**

4 NCI

Value of NCI at Acquisition as a proportion net assets	3,800
Plus NCI% of Subsidiary's post-acq'n profit (40% x 2,000)	800
	4,600

5 Group Retained Earnings

Parent's	20,000
Plus Share of Subsidiary's post-acq'n profit (60% x 2,000)	1,200
Less Impairment loss	(637.50)
Plus Share of Associate's post-acq'n profit (30% x 1,800)	540
	21,102.50

6 Investment in Associate

Cost of investment	3,000
Share of post-acquisition profit	540
	3,540

7 Profit for the Year Attributable to NCI

Subsidiary's profit for the post-acq'n period (5,000 x 6/12)	2,500
Adjustments for:	
Depreciation	(300)
PURP on inventory (Subsidiary is the seller)	(200)
Adjusted profit for the post-acq'n period	2,000
x NCI%	x 40%
	800

(20 marks evenly spread using ticks)

(Total: 20 marks)

EXAMINER'S COMMENTS

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. Most of the candidates scored less than 5 marks (out of 20 marks). A large proportion struggled with the correct presentation of consolidated financial statements. This weakness was widespread and suggests a lack of emphasis on the structure and format of financial statements during preparation. Candidates need to practice full financial statement preparation and ensure they understand IFRS disclosure requirements.

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) 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.
- Apply equity accounting.

d) Understand Examiner Expectations:

- Read and analyse past examiner reports to identify common mistakes and best practices.
- Prioritise clarity and accuracy in financial statement preparation.

QUESTION TWO

a)

Licence

The licence has a zero recoverable amount at 30 June 2025 and should be written off.

	GH¢'000	GH¢'000
DR Profit or loss	4,000	
CR Licence		4,000

(4 marks)

b) Inventories

	GH¢'000	GH¢'000
Cost	2,200	
Net realisable value	0	
Loss	2,200	
DR Cost of sales	2,200	
CR Inventories		2,200

The cost of disposal and re-use will be accounted for when it is incurred. A net realisable value cannot be negative.

(4 marks)

c) Any amount recorded at the present value of future cash flows should be adjusted as time passes. The adjustment allows for the fact that the time to maturity is shorter.

The adjustment is measured as the opening balance multiplied by the original discount rate. Another method, which would give the same answer, would be to recalculate the discounted amount using the same discount rate but the shorter period.

Here GH¢14 million X 8% gives GH¢1.12 million.

This is charged (debited) to profit or loss (finance costs) and increases the present value of the provision (credit entry).

(3 marks)

d)

i) The exclusive distribution right is a form of intangible asset. Tarnue should capitalize it and amortise it over its useful life of 3 years.

ii) The Tarnue brand falls into the category of an internally generated intangible asset. Under IAS 38, internally generated assets cannot be recognised unless they can be valued by reference to an active market in identical assets. Clearly every brand is unique, so there cannot, by definition, be an active market in identical assets.

Similar, maybe, but identical, no. The other exception to the non-recognition rule is the instance of development costs. The development of a brand does not meet the criteria for capitalising development costs. Hence, the costs of developing the brand must be expensed, and the fair value of the brand may not be recognised under IAS 38.

iii) This expenditure falls into the category of market research. IAS 38 specifically precludes the capitalisation of market research. Hence the GH¢500,000 must be expensed as incurred.

(6 marks)

e) ***Functional currency*** is the currency of the primary economic environment in which the entity operates whereas ***presentation currency*** is the currency in which financial statements are presented.

(3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 2 assessed candidates' knowledge of the contents and application of the following IFRS standards: *IAS 37 Provisions, Contingent Liabilities and Contingent Assets; IAS 2 Inventories; IAS 38 Intangible Assets and IAS 21 The Effects of Changes in Foreign Exchange Rates*.

Most candidates performed well in this question, demonstrating a good understanding of the core concepts tested in these Standards. However, few students could not relate their knowledge to the issues tested in these standards thereby scoring very low marks.

Key Areas of Weakness:

- Failure to apply IFRS correctly across multiple areas.
  - ✓ Some candidates displayed difficulty in applying IFRS principles to practical scenarios.
  - ✓ This suggests a lack of deep conceptual understanding rather than exam pressure or time constraints.
- Weak knowledge of the IFRS dealing with intangible assets.
- Poor understanding of IAS 37 dealing with decommissioning provision.
- Weak knowledge of IAS 2 dealing with out of date inventories and the cost of disposal.

Guidance for Future Exams:

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

- Instead of memorizing formulas, focus on understanding the principles behind IFRS standards.
- Practice IFRS-based questions that require interpretation rather than just recall.
- Review disclosure requirements in IFRS.

QUESTION THREE

Dorwelee LTD
Statement of Profit or Loss and Other Comprehensive Income for the year ending 31 December 2024

	GH¢'000
Sales	640,000
Cost of sales (W1)	(452,500)
Gross Profit	187,500
Distribution costs (W2)	(43,625)
Administrative expenses (W3)	(65,625)
Operating Profit	78,250
Finance cost (W4)	(30,000)
Profit before tax	48,250
Taxation (W5)	(14,000)
Profit after tax	34,250
Other comprehensive income:	
Gain on revaluation of property (W6)	61,700
Total comprehensive income	**95,950**

(8 marks evenly spread using ticks)

Dorwelee LTD
Statement of Changes in Equity for the year ending 31 December 2024

	Stated Capital GH¢'000	Revaluation Reserve GH¢'000	Retained Earnings GH¢'000	Total GH¢'000
Balance at 1 January 2024	250,000	-	135,000	385,000
Gain on revaluation of property		61,700		61,700
Net profit for the period			34,250	34,250
Transfer of realised profits (W10)		(700)	700	-
Dividends paid			(10,000)	10,000
Balance at 31 December 2024	250,000	61,000	159,950	470,950

(4 marks)

Dorwelee Ltd
Statement of Financial Position as at 31 December 2024

	GH¢'000	GH¢'000
Assets		
Non-current assets		
Property, plant and equipment (W7)	261,000	
Right-of-use asset (W8)	120,000	
Export license (W9)	22,500	
		403,500
Current Assets		
Inventories	115,000	
Trade receivables	220,000	
Bank balances	168,950	
		503,950
		907,450
Equity and liabilities		
Capital and Reserves		
Stated Capital	250,000	
Revaluation reserve	61,000	
Retained earnings	159,950	
		470,950
Non-current liabilities		
Long–term loan	200,000	
Deferred tax (W12)	37,000	
Obligation under finance lease (W11)	97,500	
		334,500
Current liabilities		
Trade payables	60,000	
Taxation	12,500	
Obligation under finance lease (W11)	27,500	
Provision for legal costs (W13)	2,000	
		102,000
		907,450

(8 marks)

WORKINGS (IN GH¢'000)

1 Cost of sales

Opening inventories	131,000
Purchases	375,000
Closing inventories	(115,000)
Depreciation:	
Buildings ((200,000 - 97,500)/(50 - 9)) = 2,500 x 80%	2,000
Plant and equipment (135,000/4) = 33,750 x 80%	27,000
Right of use asset (150,000/5)	30,000
Amortisation of licence (25,000/10)	2,500
	452,500

2 Distribution expenses

Per trial balance	40,000
Depreciation:	
Buildings (2,500 x 10%)	250
Plant and equipment (33,750 x 10%)	3,375
	43,625

3 Administrative expenses

Per trial balance	110,000
Depreciation:	
Buildings (2,500 x 10%)	250
Plant and equipment (33,750 x 10%)	3,375
Less Provision for legal claim	(48,000)
	65,625

4 Finance costs

Finance cost on long-term loan	15,000
Interest on lease (150,000 x 10%)	15,000
	30,000

5 Income tax expense

Estimated tax on profit for the year	12,500
Over-provision of tax in the previous year (12,000 - 11,000)	(1,000)
Deferred tax adjustment (7,000 - 4,500)	2,500
	14,000

6 Revaluation of Property	**Land**	**Building**	**Total**
Revalued amount	**97,500**	102,500	200,000
Carrying amount	**60,000**	73,800	133,800
Gain on revaluation	**37,500**	28,700	66,200
Deferred tax			(4,500)
Gain on revaluation (net of tax)			**61,700**

7 Property, plant and equipment

	Land	**Building**	**Plant & Equipment**	**Total**
COST/VALUATION:				
At 1 January 2024	60,000	**90,000**	135,000	285,000
Revaluation gain	37,500	**28,700**		66,200
At 31 December 2024	97,500	**118,700**	135,000	351,200
ACCUMULATED DEPRECIATION:				
At 1 January 2024	-	**16,200**	37,750	53,950
Charge for the year	-	**2,500**	33,750	36,250

At 31 December 2024	-	**18,700**	71,500	90,200
CARRYING AMOUNT:				
At 31 December 2023	60,000	**73,800**	97,250	231,050
At 31 December 2024	97,500	**100,000**	63,500	**261,000**

8 Right-of-use Asset

Initial amount recognised	150,000
Depreciation charge for the year	(30,000)
Carrying amount	**120,000**

9 Intangible asset – Export Licence

Initial cost	25,000
Amortisation charge for the year	(2,500)
Carrying amount	**22,500**

10 Transfer to Realised Reserve

Depreciation based on revalued amount (102,500/41)	2,500
Depreciation based on historical cost (73,800/41)	1,800
Excess depreciation charge (= 28,700/41)	**700**

11 Lease liability

Year	**Opening bal.**	**Int. @10%**	**Payments**	**Closing bal.**
2024	150,000	**15,000**	(40,000)	125,000
2025	125,000	**12,500**	(40,000)	97,500

Split of liability:

Non-current liability	97,500
Current liability (125,000 - 97,500)	27,500
Total liability	**125,000**

12 Deferred tax

Balance at 1 January 2024	30,000
Adjustment in P/L	2,500
Adjustment in OCI	4,500
Balance at 31 December 2024	**37,000**

13 Provision for legal costs

Per trial balance	50,000
Reversal of amount sought by the customer	(48,000)
Balance at 31 December 2024	**2,000**

14. Contingent asset

A customer has lodged a case against Dorwelee LTD before 31 December 2024. Judgement has not yet been passed. However, the directores are of the view that it is probable that Dorwelee LTD can successfully defend the case. The customer is seeking a relief of GH¢48 million. The legal costs of defending the case of GH¢2 million has been provided for in the financaial statements. If Dorwelee LTD successfully defends the case, then base on the outcome of similar cases in the past, it is likely (but no certain) that the customer will be required to reimburse Dorwelee LTD for its legal costs.

(Total: 20 marks)

EXAMINER'S COMMENTS

Only a few candidates were able to score more than 10 marks out of 20. The key challenges identified were:

- ✓ **Lack of proper structure and content of the Financial Statements:** Many candidates did not show clear understanding of the structure and content of the three financial statements.
- ✓ **Misclassification of items:** Mistakes in the statement formats and misplacement of items in the financial statements resulting in loss of marks.
- ✓ **Presentation of workings:** Illogical presentation of workings accompanying the financial statements.

Guidance for future questions in this area

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

- ✓ **Understand IFRS principles thoroughly** – Focus on IAS 1: Presentation of Financial Statements.
- ✓ **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 PPE revaluations and depreciation, income tax expense, deferred tax, leases, intangible assets, and provisions.
- ✓ **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)

Adjustments and Revised Financials
Adjusting Entries

- Sales to Quinine LTD: GH¢700,000 (reduce revenue & receivables)
- Third-party inventory: GH¢100,000 (reduce inventory & cost of goods sold)
- Bad debt: GH¢40,000 (reduce receivables & recognise expense)

(4 marks)

b)

Revised Income Statement	**GH¢**
Revenue	6,300,000
Cost of Goods Sold	2,400,000
Gross Profit	3,900,000
Other Income	50,000
Salaries & Wages	(1,150,000)
Utilities	(150,000)
Medical Equipment Maintenance	(50,000)
Depreciation	(250,000)
Admin & General Expenses	(550,000)
Bad Debt	(40,000)
Interest Expense	(150,000)
Profit Before Tax	1,510,000
Income Tax	(950,000)
Net Profit After Tax	**560,000**
Retained Profit for the Year	560,000

Statement of Financial Position as at 31 December 2024 (Redrafted)

	GH¢
Non-Current Assets	
Medical Equipment	3,300,000
Intangible Assets	320,000
	3,620,000
Current Assets	
Inventory (650,000-100,000)	550,000
Accounts Receivable (800,000-700,000-40,000)	60,000
Bank	1,200,000
Cash	50,000
	1,860,000
Total Assets	**5,480,000**
Equity and Liabilities	
Equity	
Share Capital	2,000,000
Retained Earnings	2,160,000
Total Equity	**4,160,000**
Non-Current Liabilities	
Long-term Loans	950,000
Current Liabilities	
Accounts Payable	250,000
Income Tax Payable	120,000
Total Liabilities	**1,320,000**
Total Equity & Liabilities	**5,480,000**

Comparable Ratios (Post-Adjustment)

Ratio	Working	Result
Gross Profit Margin	Net Profit/Sales x 100% =3,900,000/6,300,000 × 100%	61.90%
Operating Profit Margin	EBIT/Revenue × 100 % = 1,660,000/6,300,000	26.35%
ROCE	EBIT/Capital Employed × 100% =1,660,000/5,110,000 x 100%	32.49%
Current Ratio	Current Assets/Current Liabilities =1,860,000/370,000	5.03 : 1
Quick Ratio	(Current Assets-Inventory)/Current Liabilities =(1,860,000 - 550,000)/370,000	3.54 : 1
Debtors Collection Period	Accounts Receivable/Sales x 365 days =60,000/6,300,000 × 365 days	3.48 days
Creditors Payment Period	Accounts Payable/Purchases x 365 days =250,000/2,500,000) × 365 days	36.5 days
Net Assets Turnover	Revenue/Net Assets =6,300,000/4,160,000	1.51 times
Debt to Equity Ratio	Long term debt/Equity x 100% =950,000/4,160,000 x 100%	22.84%
Capital Gearing	Long term debt/Capital Employed x 100% = 950,000/(950,000 + 4,160,000)	18.59%

(8 marks)

c) **Report to the Board of Gbarnga LTD**

To: Board of Directors of Gbarnga LTD
From: Finance Director
Date: Today
Subject: **Assessment of the Comparative Performance of two Acquisition targets - Buchanan LTD and Pleebo LTD**

Introduction

This report presents a comparative analysis of two potential acquisition targets, Buchanan LTD and Pleebo LTD, using key financial ratios. The objective is to guide the board of Gbarnga LTD in deciding which company presents a more viable investment opportunity. Ratios have been grouped into four main categories: profitability, liquidity, efficiency, and gearing. For each ratio, we define its meaning, assess Buchanan's performance (post-adjustment), and compare it with Pleebo's.

Profitability Ratios

These ratios assess a company's ability to generate profits relative to revenue or capital invested.

Ratio	Definition	Buchanan LTD	Pleebo LTD	Interpretation
Gross Profit Margin	Measures the proportion of revenue remaining after deducting cost of goods sold. Higher values indicate strong production or pricing efficiency.	61.90%	59%	Buchanan has a slightly better margin, indicating stronger cost control.
Operating Margin	Shows how much profit is generated from core operations before interest and tax. Reflects operational efficiency.	26.35%	20%	Buchanan outperforms, signaling more efficient operations.
ROCE	Return on Capital Employed shows how effectively capital is being used to generate profit.	32.49%	31%	Both are strong, but Buchanan has a slight edge, reflecting efficient use of capital.

Liquidity Ratios

These indicate the ability of the business to meet short-term obligations.

Ratio	Definition	Buchanan LTD	Pleebo LTD	Interpretation
Current Ratio	Measures ability to cover short-term liabilities with short-term assets. A higher ratio indicates better short-term financial strength.	5.03 : 1	4.5 : 1	Buchanan has a stronger liquidity position.
Quick Ratio	Similar to the current ratio but excludes inventory, giving a stricter view of liquidity.	3.54 : 1	3 : 1	Buchanan again shows stronger short-term liquidity.

Efficiency Ratios

These evaluate how well a company uses its assets and manages its liabilities.

Ratio	Definition	Buchanan LTD	Pleebo LTD	Interpretation
Debtors Collection Period	Measures how quickly receivables are collected. Shorter periods suggest better credit control.	3.48 days	1.5 days	Pleebo collects debts faster, showing stronger receivables management.
Creditors Payment Period	Indicates how long it takes to pay suppliers. Longer periods may improve cash flow, but too long could strain supplier relations.	36.5 days	50 days	Pleebo takes longer to pay, improving cash retention but potentially risky.
Net Assets Turnover	Indicates how efficiently net assets are used to generate sales. Higher values mean greater efficiency.	1.51 times	1.3 times	Buchanan is using its net assets more efficiently to generate revenue.

Gearing Ratios

These assess the financial risk and capital structure of a company.

Ratio	Definition	Buchanan LTD	Pleebo LTD	Interpretation
Debt to Equity	Measures the proportion of debt to equity. Lower values indicate less reliance on borrowed funds.	22.84%	40%	Buchanan is less leveraged and therefore less financially risky.
Capital Gearing	Long-term debt relative to total capital employed. Indicates financial risk.	18.59%	28%	Buchanan has a more conservative capital structure, suggesting lower risk.

Conclusion

Based on the analysis above, Buchanan LTD outperforms Pleebo LTD in profitability, liquidity, and overall financial risk. Although Pleebo is slightly more efficient in collecting receivables and managing supplier payments, Buchanan demonstrates stronger fundamentals across most areas. Given its higher profitability, stronger liquidity, and lower gearing, Buchanan LTD appears to be the more stable and attractive acquisition target.

Gbarnga LTD should invest in Buchanan LTD.

(8 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question requested candidates to make adjusting entries to reflect a due diligence exercise carried out on two potential acquisition targets and then calculate comparable ratios based on the resulting figures.

Most candidates were able to indicate the adjusting entries required but were unable to apply the entries to the calculation of the ratios. This reflects a weakness in double entry and preparation of financial statements. Candidates are expected to practice questions using ratio analysis involving correction errors and fraud.

QUESTION FIVE

a)

i) **Impact of sustainability and climate-related risks and opportunities on the preparation of financial statements**

Sustainability and climate-related risks and opportunities have a growing impact on various areas of financial reporting, especially under IFRS. For Dambambo Limited, key areas include:

- **Impairment of Assets (IAS 36):** Climate change regulations or reputational damage may reduce the value of timberlands or processing plants, requiring impairment testing.
- **Provisions (IAS 37):** If environmental regulations create legal or constructive obligations (e.g., fines or restoration costs), a provision must be recognised.
- **Contingent Liabilities:** Legal actions or investigations may give rise to disclosures of contingent liabilities.
- **Useful Lives and Residual Values (IAS 16):** Climate policies may lead to earlier-than-expected decommissioning of equipment or facilities, requiring adjustments to depreciation estimates.
- **Going Concern:** If climate risks threaten operational continuity, going concern assumptions must be re-evaluated.
- **Disclosures (IFRS 7, IFRS 13, IAS 1):** Entities must disclose material risks, assumptions, and sensitivities associated with climate issues if they influence judgments or estimates.

(Any 4 points @ 1.5 marks =6 marks)

ii) **Actions taken by the IASB in relation to sustainability and climate-related disclosures** The IASB has taken important steps to respond to increasing stakeholder demand for transparency on sustainability and climate-related financial disclosures:

- **Educational Material:** The IASB released educational guidance (2020) on how climate-related risks can be addressed using existing IFRS standards.
- **Work with the ISSB:** The IASB supports the International Sustainability Standards Board (ISSB), which has issued IFRS S1 and S2 to provide a global baseline for sustainability-related and climate-related disclosures.
- **Sustainability in the Agenda Consultation:** The IASB, through its third agenda consultation, identified connectivity between financial reporting and sustainability reporting as a strategic priority.
- **Integrated Reporting Collaboration:** Through cooperation with the Value Reporting Foundation and other initiatives, the IASB promotes integrated thinking that links sustainability to financial results.
- **Improved Coherence:** The IASB is working to ensure that sustainability disclosures align with financial statement information where relevant, promoting consistency and clarity.

(Any 2 points @ 2 marks =4 marks)

b)

i) **Governance Issues at GbolorFoods Ltd (3 marks)**

- **Lack of Board Independence**: All directors are family members, which undermines objectivity and accountability.
- **Infrequent Board Meetings**: Meeting only once per year weakens oversight and responsiveness.
- **Absence of Board Committees**: No Audit or Remuneration Committee suggests weak internal controls.
- **Conflict of Interest**: Awarding contracts to a related party without disclosure violates fiduciary duties.

(3 valid points for 3 marks)

ii) **Application of the Ghana Corporate Governance Code (2020)**

- **Board Composition**: The Code recommends a mix of executive and non-executive directors, with at least one independent.
- **Board Effectiveness**: Boards should meet regularly and evaluate their performance.
- **Committees**: The Code calls for Audit and Remuneration Committees to improve governance.
- **Conflict of Interest**: Directors must disclose conflicts and refrain from participating in related decisions.
- **Stakeholder Engagement**: Boards should consider the interests of all stakeholders.

(2 valid points for 2 marks)

c) Under ***IAS 41: Agriculture***, the initial measurement of biological assets is as follows:

Measurement Basis: Biological assets shall be measured on initial recognition and at each reporting date at fair value less costs to sell, except where fair value cannot be measured reliably.

Any gain or loss arising from the initial recognition of a biological asset at fair value less costs to sell, and from subsequent changes in fair value less costs to sell, is recognised in profit or loss for the period in which it arises.

Exception to Fair Value Rule: If fair value cannot be measured reliably (e.g. in the case of an immature biological asset in a very early stage and no active market exists), then the asset is measured at cost less accumulated depreciation and impairment losses until fair value becomes reliably measurable.

(5 marks)

(Total: 20 marks)

EXAMINERS' COMMENTS

Most candidates scored good marks in each of the three parts of this question. However, some candidates did not prepare very well in this part of the syllabus and therefore scored below 10 marks.

CONCLUSION AND RECOMMENDATIONS

The exam results indicate that some candidates demonstrated strong knowledge in group accounting, single entity financial statements and financial statement analysis but struggled with the correct application and presentation of IFRS standards.

Future candidates should prioritise 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.