

**MARCH 2026 PROFESSIONAL EXAMINATIONS
FINANCIAL REPORTING (PAPER 2.1)
QUESTIONS AND MARKING SCHEME**

QUESTION ONE

Below are the summarised draft financial statements of Tomah and Flomo

**Statements of Profit or Loss and Other Comprehensive Income for the year ended 30
September 2024**

	Tomah	Flomo
	GH¢'000	GH¢'000
Revenue	92,500	45,000
Cost of sales	<u>(70,500)</u>	<u>(36,000)</u>
Gross profit	22,000	9,000
Distribution costs	(2,500)	(1,200)
Administrative expenses	(5,500)	(2,400)
Finance costs	<u>(100)</u>	<u>-</u>
Profit before tax	13,900	5,400
Income tax expense	<u>(3,900)</u>	<u>(1,500)</u>
Profit for the year	10,000	3,900
Other comprehensive income:		
Gain on revaluation of land (note ii)	<u>500</u>	<u>-</u>
Total comprehensive income	<u>10,500</u>	<u>3,900</u>

Statements of Financial Position as at 30 September 2024

	Tomah	Flomo
	GH¢'000	GH¢'000
Assets		
Non-current assets		
Property, Plant and Equipment	25,500	13,900
Investments	<u>1,800</u>	<u>-</u>
Total non-current assets	27,300	13,900
Current assets:	<u>12,500</u>	<u>2,400</u>
Total assets	<u>39,800</u>	<u>16,300</u>
Equity		
Equity shares of GH¢1 each	12,000	5,000
Land revaluation reserve	2,000	-
Other equity reserve	500	-
Retained earnings	<u>12,300</u>	<u>4,500</u>
Total equity	26,800	9,500
Non-current liabilities		
6% loan notes	3,000	-
Current liabilities	<u>10,000</u>	<u>6,800</u>
	<u>13,000</u>	<u>6,800</u>
Total equity and liabilities	<u>39,800</u>	<u>16,300</u>

The following information is relevant:

- i) On 1 October 2023, Tomah acquired 80% of the equity share capital of Flomo. The consideration consisted of two elements: a share exchange of three shares in Tomah for every five acquired shares in Flomo and an immediate cash payment of GH¢800,000. The share issue has not yet been recorded by Tomah, but the cash payment has been recorded. At the date of acquisition, the shares of Tomah had a market value of GH¢5 each and the shares of Flomo had a stock market price of GH¢3.50 each.
- ii) At the date of acquisition, the fair values of Flomo's assets were equal to their carrying amounts with the exception of its property. This had a fair value of GH¢1.2 million below its carrying amount. This would lead to a reduction of the depreciation charge (in cost of sales) of GH¢50,000 in the post-acquisition period. Flomo has not incorporated this value change into its entity financial statements.
- iii) Tomah's group policy is to revalue all properties to current value at each year end. On 30 September 2024, the value of Flomo's property was unchanged from its value at acquisition, but the land element of Tomah's property had increased in value by GH¢500,000 as shown in other comprehensive income.
- iv) Tomah's investments include some equity investments carried at fair value through other comprehensive income that have increased in value by GH¢300,000 during the year. The other equity reserve relates to these investments and is based on their value as at 30 September 2024. There were no acquisitions or disposals of any of these investments during the year ended 30 September 2024.
- v) Sales from Flomo to Tomah throughout the year ended 30 September 2024 had consistently been GH¢1 million per month. Flomo made a mark-up on cost of 25% on these sales. Tomah had GH¢2 million (at cost to Tomah) of inventory that had been supplied in the post-acquisition period by Flomo as at 30 September 2024.
- vi) Tomah had a trade payable balance owing to Flomo of GH¢350,000 as at 30 September 2024. This agreed with the corresponding receivable in Flomo's books.
- vii) Tomah's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose, Flomo'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.
- viii) There has been no impairment of consolidated goodwill.

Required:

- a) Prepare the Consolidated Statement of Profit or Loss and Other Comprehensive Income for Tomah Group for the year ended 30 September 2024.
- b) Prepare the Consolidated Statement of Financial Position for Tomah Group as at 30 September 2024.

(Total: 20 marks)

QUESTION TWO

- a) Senku PLC, a listed company currently holds the place of Ghana's top oil marketing company, and is the only indigenous owned petroleum marketing company in Ghana. It had the following transactions during the year:
- GH¢80,000 raw materials purchased from Dondo LTD, a company 55% owned by the wife of the managing director of Senku PLC.
 - GH¢120,000 sales made to Twene Oil. Kerkula Bettee is the Managing Director of both Senku PLC and Twene Oil. Kerkula Bettee also holds share options in Twene Oil, which, if exercised, would give him a 5% holding.
 - GH¢40,000 loan, made to the Finance Director of Senku PLC last year, was repaid in the current year.
 - GH¢55,000 sales made to Tikobo LTD, a company 25% owned by Eriah Babydad, a 30% shareholder in Senku PLC. Eriah has a seat on the Boards of both companies.

Required:

In accordance with *IAS 24: Related Party Disclosures*, justify whether each of the above transactions requires a related party disclosure. **(4 marks)**

- b) Jamal LTD (Jamal) entered into a finance lease on a machine (as lessee) on 1 July 2024, covering the period to 30 June 2030. The lease requires 12 payments of GH¢20,000 payable on 31 December and 30 June each year, commencing 31 December 2024. Jamal incurred legal costs of GH¢4,000 to set up the lease.

Further details of the lease are as follows:

- List price of the asset on 1 July 2024: GH¢200,000
- Interest rate implicit in the lease (half year rate): 4%
- Present value of minimum lease payments: GH¢187,702.

Jamal uses the actuarial method of allocating finance charges.

Required:

In accordance with *IFRS 16: Leases*, determine the liability component that will be shown in Jamal's Statement of Financial Position as at 31 December 2025. **(7 marks)**

- c) Fontonfrom LTD (Fontonfrom) is a distributor of frozen chicken, beef, pork, mutton, turkey, fish and many more. Fontonfrom is in the process of finalising its financial statements for year ended 31 March 2025. The draft statements were completed on 14 May 2025, and the audit is currently in progress. The financial statements are expected to be approved by the Board of Directors on 15 June 2025, and published on 20 June 2025.

The following matters have come to light during the audit and your professional advice is requested. No adjustment has been made in respect of these matters:

- Closing inventory at 31 March 2025 includes 100 items carried at cost of GH¢5,000 each. New safety regulations were announced on 5 May 2025 with immediate effect. The items of inventory do not comply with these regulations. As a result, the net realisable value of the inventory is only GH¢4,500 each.
- An investment in unquoted equity instruments was held by Fontonfrom at 31 March 2025 at an amount of GH¢3.5 million. This was its fair value on 30 September 2024. Due to the

unavailability of professional valuers, an updated fair value was not available until 15 May 2025. On this date, the valuer provided an estimate of fair value of GH¢2.8 million.

Required:

In accordance with *IAS 10: Events After the Reporting Period*, prepare a briefing note advising on the accounting treatment with respect to each case (i) and (ii) above. **(5 marks)**

- d) *IAS 23: Borrowing Costs* requires that borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset must be capitalised as part of the cost of that asset. Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. Where funds are part of a general pool, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the borrowing costs applicable to the general pool.

Required:

When should capitalisation of borrowing costs commence and cease? **(4 marks)**

(Total: 20 marks)

QUESTION THREE

Dzormeku LTD (Dzormeku) has become a well-known brand in West Africa, providing comprehensive solutions in security printing, business form manufacturing, design and commercial stationery printing.

Below is the draft Statement of Financial Position that was drawn up as at 31 December 2025. Upon subsequent examination of the books and records, the Finance Director has prepared a list of issues which she believes may require amendments to the draft statement presented.

	GH¢ million	GH¢ million
Non-current assets		
Property, Plant & Equipment		1,530.00
Investment properties		180.00
Equity investments		<u>540.00</u>
		2,250.00
Current assets		
Inventory		120.00
Trade receivables		187.50
Cash & bank		<u>45.00</u>
		<u>352.50</u>
Total assets		<u>2,602.50</u>
Equity		
Equity share capital		900.00
Retained earnings: Balance 1 January 2025	562.50	
Profit for year	142.50	
Dividend declared	<u>(45.00)</u>	660.00
Other components of equity: Balance 1 January 2025	192.00	
Other comprehensive income for year	<u>52.50</u>	<u>244.50</u>
		1,804.50
Non-current liabilities		
5% debenture 2030		225.00
Current liabilities:		
Trade payables		480.00
Provision for warranty claim		18.00
Corporate tax due		30.00
Final dividend due		<u>45.00</u>
		<u>573.00</u>
Total equity & liabilities		<u>2,602.50</u>

Additional information:

- i) Land and buildings are carried after charging depreciation for the year. On 31 December 2025, a piece of property, carried at GH¢195 million, was revalued to GH¢165 million. This revaluation has not been accounted for. The revaluation reserve (included with other components of equity) had a balance of GH¢18 million due to previous revaluations of this property.

Plant and equipment are carried after charging depreciation for the year. A sale agreement was entered into in December 2025 to sell some of this plant. The plant sold had a carrying value of GH¢45 million at the date of sale and was sold for an agreed price of GH¢39 million. No cash has yet been received in respect of this sale, as a 30-day credit period was agreed with the purchaser. No entry has been made to record this transaction.

- ii) The equity investments had a fair value of GH¢570 million at 31 December 2025, which has not yet been incorporated into the financial statements. Dzormeku has made a decision to take all fair value gains and losses on equity investments to “other comprehensive income” as permitted by *IFRS 9: Financial Instruments*.
- iii) The 5% debenture was issued on 1 January 2025 for cash proceeds of GH¢225 million, and was correctly recorded. The redemption terms of this debenture are such that the effective rate of interest to maturity was 6.5%. The only other entry made in respect of the debenture was the payment of GH¢11.25 million interest on the due date 31 December 2025.
- iv) Dzormeku offers a 12-month warranty on all goods sold to retail customers. A provision is maintained for the expected cost of honouring this warranty. This has not been updated as at 31 December 2025. Dzormeku sold 40,000 units of product during the year, all of which qualify for warranty. It expects 10% of these to need minor repairs at an average cost of GH¢750 each, and 3% to need major repair at a cost of GH¢15,000 each. All costs are expected to be incurred within 12 months.
- v) An inventory count on 31 December 2025 listed goods with a cost of GH¢120 million. This included some damaged goods that had cost GH¢9.6 million. These would require remedial work costing GH¢5.4 million before they could actually be sold for an estimated GH¢11.4 million. This has not been reflected in the financial statements.
- vi) The closing trade receivables include an amount of GH¢15 million owed by a customer who experienced cash flow problems prior to the year end. Dzormeku agreed to accept a payment of GH¢12 million in full and final settlement of the debt and to defer the payment until 31 December 2026. Dzormeku would expect a return of 20% on sums invested for one year.

(Ignore the taxation effects of any adjustments you make).

Required:

- a) Prepare a schedule showing any corrections required to the *profit* and *other comprehensive income* for the year.
- b) Redraft the Statement of Financial Position at 31 December 2025 for Dzormeku LTD.

(Total: 20 marks)

QUESTION FOUR

Sambola Innovations PLC (Sambola), a publicly listed Ghanaian holding company in the technology sector, is exploring strategic opportunities to expand its operations through acquisition. The company has identified Gbanyan Systems LTD (Gbanyan), a private firm specialising in enterprise tech infrastructure and AI-based security platforms, as a potential acquisition target.

To support the decision-making process, Sambola's Board has requested an in-depth financial statement analysis of Gbanyan, including adjustments based on newly identified financial anomalies.

The following are the draft financial statements of Gbanyan Systems LTD

Income Statement (Extract) for the Year Ended 31 December 2024

	GH¢' 000
Revenue	8,200
Cost of Sales	<u>(4,500)</u>
Gross Profit	3,700
Operating Expenses	(2,400)
Finance Costs	<u>(200)</u>
Profit Before Tax	1,100
Income Tax	<u>(400)</u>
Net Profit After Tax	<u>700</u>

Statement of Financial Position as at 31 December 2024

	GH¢' 000
Assets	
Non-Current Assets	
Property, Plant & Equipment	6,400
Intangible Assets (Software IP)	<u>500</u>
	6,900
Current Assets	
Inventories	1,200
Trade Receivables	1,600
Cash & Bank	<u>1,300</u>
	4,100
Total Assets	<u>11,000</u>
Equity and Liabilities	
Equity	
Share Capital	3,200
Retained Earnings	<u>3,500</u>
	6,700
Non-Current Liabilities	
Long-Term Loan (10% p.a.)	2,000
Current Liabilities	
Trade Payables	<u>2,300</u>
	4,300
Total Equity & Liabilities	<u>11,000</u>

Additional Information: Financial Anomalies Identified

- i) GH¢400,000 of revenue relates to a software licensing agreement under legal dispute; the legal team has advised that the amount is unlikely to be collectible. The amount had been invoiced and included in receivables.
- ii) Depreciation expense was understated by GH¢250,000 because a property was erroneously not depreciated.
- iii) An off-balance sheet warranty obligation of GH¢500,000 is expected to materialise and be paid in the next financial year.
- iv) **Below are benchmark ratios in the technology sector in Ghana for the year 2024**

Ratio	Sector Average
Gross Profit Margin	50%
Operating Profit Margin	28%
ROCE	28%
Current Ratio	2.5 : 1
Quick Ratio	1.4 : 1
Receivables Collection Period	33 days
Payables Payment Period	40 days
Net Asset Turnover	1.4 times
Gearing (Debt/Equity)	30%

Required:

- a) Calculate the financial ratios for Gbanyan after making adjustment for the financial anomalies identified in notes (i-iii). **(10 marks)**
- b) Prepare a report to the Board of Directors of Sambola, comparing the adjusted performance of Gbanyan with the industry benchmarks. Indicate whether or not Gbanyan is an attractive target. **(10 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) The IASB's Conceptual Framework for Financial Reporting states that the qualitative characteristics of financial statements are the attributes that make financial information useful. Two of the enhancing qualitative characteristics of useful financial information contained in the IASB's Conceptual Framework for Financial Reporting are *understandability* and *comparability*.

Required:

- i) Explain the meaning and purpose of the above characteristics in the context of financial reporting. **(4 marks)**
ii) Discuss the role of consistency within the characteristic of comparability in relation to changes in accounting policy. **(3 marks)**

- b) The conceptual framework includes the measurement bases of the elements of the financial statements together with recognition criteria for them.

Required:

Discuss **FOUR** bases of measurement used in the financial statements. **(8 marks)**

- c) Lumumba LTD (Lumumba) enters into a contract to build a rail tunnel under a river for GH¢2.6 billion. Construction will take place over a 3-year period, and billing will take place in accordance with an agreed schedule.

Contingency arrangements are incorporated into the contract whereby additional payments would be received by Lumumba if unexpected difficulties arise. At the commencement of the contract it is estimated that there is a 20% chance that difficulties will arise which would trigger the additional payments to be made to Lumumba.

Required:

In accordance with *IFRS 15: Revenue from Contracts with Customers*, explain how revenue relating to the above transaction would be accounted for. **(5 marks)**

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

Tomah Group

Consolidated statement of Profit or Loss for the year ended 30 September 2024

	GH¢'000
Revenue (92,500+45,000-12,000)	125,500
Cost of sales (W6)	<u>(94,850)</u>
Gross profit	30,650
Distribution costs (2,500+1,200)	(3,700)
Administrative expenses (5,500+2,400)	(7,900)
Finance costs	<u>(100)</u>
Profit before tax	18,950
Income tax expense (3,900+1,500)	<u>(5,400)</u>
Profit for the year	13,550
Other comprehensive income:	
Gain on equity investments	300
Gain on revaluation of property	<u>500</u>
Total comprehensive income for the year	<u>14,350</u>
<i>Profit for year attributable to:</i>	
Equity holders of the parent	12,840
Non-controlling interest ((3900-400 URP + 50) × 20%)	<u>710</u>
Profit for the year	<u>13,550</u>
<i>Total comprehensive income attributable to:</i>	
Equity holders of the parent	13,640
Non-controlling interest	<u>710</u>
Total comprehensive income for the year	<u>14,350</u>

Tomah Group
Consolidated Statement of Financial Position as at 30 September 2024

GH¢'000

Assets	
Non-current assets	
Property, plant and equipment (25,500 + 13,900 - 1,200(W2) + 50 (W2))	38,250
Goodwill (W3)	11,900
Available-for-sale investments (1,800 - 800 consideration + 300 gain)	<u>1,300</u>
	51,450
Current assets (12,500 + 2,400 - 400(W2) - 350 intra-group bal.)	<u>14,150</u>
	<u>65,600</u>
Equity and liabilities	
Equity attributable to owners of the parent	
Equity shares of GH¢1 each ((12,000 + 12,000)(W3))	24,000
Land revaluation reserve	2,000
Other equity reserve (500 + 300)	800
Retained earnings (W4)	<u>15,140</u>
	41,940
Non-controlling interest (W5)	4,210
Non-current liabilities	
6% loan notes	3,000
Current liabilities (10,000 + 6,800 - 350 intra-group balance)	<u>16,450</u>
	<u>65,600</u>

Workings in GH¢'000

1. Group structure

Tomah – 80% control, NCI – 20%
 Date of acquisition/control: 1/06/2023
 Date of reporting: 30/09/2024
 Post-acquisition period: 1 year

2. Net Assets

	Acquisition date 1/10/2023	Reporting date 30/09/2024	Post- acquisition movements
Equity capital	5,000	5,000	-
Retained earnings (4,500-3,900)	600	4,500	3,900
Fair value adjustment: property	(1,200)	(1,200)	-
Depreciation adjustment: property	-	50	50
PUP on inventory (2,000 × 25/125)	-	(400)	(400)
	4,400	7,950	3,550

3. Goodwill in Flomo

Investment at cost:	
Shares (5,000 × 80% × 3/5 × GH¢5)	12,000
Cash payment	<u>800</u>
Total	12,800
Non-controlling interest (5,000 × 20% × GH¢3.50)	<u>3,500</u>
	16,300
Net assets (equity) of Flomo at acquisition (W2)	<u>(4,400)</u>
Goodwill	<u>11,900</u>

The 2.4 million shares (5,000 × 80% × 3/5) issued by Tomah at GH¢5 each would be recorded as share capital of GH¢12 million.

4. Consolidated retained earnings

Tomah	12,300
Group's share of Flomo's post-acquisition (W2) (3,550 × 80%)	<u>2,840</u>
	15,140

5. Non-controlling interest in statement of financial position

Fair value at date of acquisition	3,500
Post-acquisition profit (3,550 × 20%)	<u>710</u>
Total	4,210

6. **Cost of sales**

Tomah	70,500
Flomo	36,000
Intra-group purchases	(12,000)
URP in inventory	400
Reduction of depreciation charge	<u>(50)</u>
Total	94,850

The unrealized profit (URP) in inventory is calculated as GH¢2 million \times 25/125
= GH¢400,000.

(Total: 20 marks)

QUESTION TWO

a)

- i) Disclosure required – the transaction is with a company controlled by close family of key management personnel of Senku PLC
- ii) Disclosure required – Senku PLC and Twene Oil share a director, a key management personnel. Therefore, a disclosure is required.
- iii) Disclosure required – the existence and repayment of the loan to key management personnel during the current period, even though the loan is no longer outstanding at the year-end is a related party transaction during the reporting period, as is any interest charge on the loan.
- iv) Disclosure required – Eriah Babaydad has significant influence over both companies. Control, joint control or significant influence over at least one of the companies is all that is necessary to constitute a related party relationship.

(4 marks)

b)

- Lease start date: 1 July 2024
- Lease end date: 30 June 2030
- Lease payments: 12 payments of GH¢20,000 every 6 months (31 Dec and 30 June), first payment on 31 Dec 2024
- Half-yearly interest rate: 4%
- Present value of lease payments: GH¢187,702
- Legal costs of GH¢4,000 (capitalized as part of ROU asset, not part of liability)

Lease liability schedule

Date	Opening Balance GH¢	Interest (4%) GH¢	Payment GH¢	Principal GH¢	Closing Balance GH¢
31 Dec 2024	187,702	7,508	20,000	12,492	175,210
30 Jun 2025	175,210	7,008	20,000	12,992	162,218
31 Dec 2025	162,218	6,489	20,000	13,511	148,707
30 Jun 2026	148,707	5,948	20,000	14,052	134,655
31 Dec 2026	134,655	5,386	20,000	14,614	120,041

As at 31 December 2025:

- Total lease liability = GH¢148,707
- Current liability (due in next 12 months) = **GH¢28,666**
- Non-current liability = GH¢148,707 - GH¢28,666 = **GH¢120,041**

(7 marks)

c)

- i) It would appear that the event causing the loss in value only occurred after the reporting date. There was no condition existing at the reporting date. Had the goods been sold at the reporting date, full price would have been obtained for

them. Hence this is a non-adjusting event. If the loss is material, disclosure of the event should be made in the notes to the financial statements.

- ii) Unless it is clear that a particular event between 31 March and 15 April 2025 caused the drop in the value of this investment, it should be assumed that the investment had in fact lost value on 31 March 2025, and the subsequent valuation only provided evidence of this. Hence, the receipt of the valuation is an adjusting event, and the investment should be written down at the reporting date.

(5 marks)

d) **Commencement:** Capitalisation begins when:

- Expenditures for the asset are being incurred
- Borrowing costs are being incurred
- Activities necessary to prepare the asset for its intended use or sale are in progress

Suspension: Capitalisation is suspended during extended periods when active development is interrupted.

Cessation: Capitalisation stops when substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

(4 marks)

(Total: 20 marks)

QUESTION THREE

a)

Dzormeku LTD

Revised Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2025

	GH¢'Million
Profit for the year per draft accounts	142.50
Loss on revaluation of land and buildings (W1)	(12.00)
Loss on disposal of plant (W2)	(6.00)
Increase in provision for warranties (W5)	(3.00)
Inventory write-down (W6)	(3.60)
Impairment loss (W7)	(3.00)
Finance costs (W8)	<u>(5.38)</u>
Profit for the year	109.53
Other comprehensive income:	
Other comprehensive income per draft accounts	52.50
Loss on revaluation of land and buildings (W1)	(18.00)
Gain on equity investments carried at FVOCI (W3)	<u>30.00</u>
Total Other comprehensive income for the year	<u>64.50</u>
Total comprehensive income for the year	<u>174.03</u>

b)

Dzormeku LTD

Revised Statement of Financial Position as at 31 December 2025

GH¢'Million

ASSETS

Non-current assets

Property, Plant and Equipment (W9)	1,455.00
Investment properties	180
Equity investments	<u>570</u>
	2,205.00

Current assets

Inventory (W6)	116.4
Trade receivables (W7)	221.5
Cash and bank	<u>45</u>
	<u>382.9</u>

Total Assets 2,587.90

EQUITY AND LIABILITIES

Equity:

Equity share capital	900
Retained earnings (W10)	627.03
Other components of equity (W11)	<u>256.5</u>
Total equity	1,783.53

Non-current liabilities

5% Debenture 2030 (W4)	228.38
------------------------	--------

Current liabilities

Trade payables	480
Provision for warranty claim (W5)	21
Corporate tax due	30
Final dividend due	<u>45</u>
	<u>576</u>

Total Equity & Liabilities 2,587.90

Workings

1) Revaluation of land and buildings

	GH¢'Million
Revalued amount	165
Carrying amount	(195)
Loss on revaluation	(30)
Charged to OCI (reversal of previous gain)	(18)
Charged to P/L (balance)	(12)
Total loss on revaluation	(30)

2) Disposal of plant

	GH¢'Million
<i>Recognition of proceeds from sale</i>	
Dr Receivables	39
Cr Plant disposal	39
<i>De-recognition of Carrying amount</i>	
Dr Plant disposal	45
Cr PPE	45
<i>Recognition of loss on disposal</i>	
Dr Profit or loss	6
Cr Plant disposal	6

3) Gain on equity investments carried at FVOCI

	GH¢'Million
Fair value at year -end	570
Carrying amount	(540)
Gain to OCI	30

4) 5% Debenture - Financial Liability

Year	Opening Balance	Interest @ 6.5%	Coupon	Closing Balance
	GH¢'Million	GH¢'Million	GH¢'Million	GH¢'Million
2025	225	14.63	(11.25)	228.38

5) Warranty provisions

	GH¢'Million
Units sold = 40,000	
Minor repairs (10% x 40,000 x 750)	3
Major repairs (3% x 40,000 x 15,000)	<u>18</u>
Amount at 31 December 2025	21
Increase in provision charged to P/L	<u>3</u>
Amount at start of year	<u>18</u>

6) **Valuation of closing inventory**

	GH¢'Million	GH¢'Million
Inventory per count at 31 December 2025		120.00
Damaged goods:		
Estimated Sales proceeds	11.40	
Cost of remedial works	<u>(5.40)</u>	
Net realisable value (NRV)	6.00	
Cost of damaged goods	9.60	
Lower of Cost and NRV	<u>6.00</u>	
Inventory write-down (9.6 - 6)		<u>(3.60)</u>
Inventory at 31 December 2025		<u>116.40</u>

7) **Trade receivables**

	GH¢'Million	GH¢'Million
Balance per draft accounts		187.50
Receivables from plant sale		39.00
Owed by customer	15.00	(15.00)
Amount receivable	<u>(12.00)</u>	
Impairment loss	3.00	
PV of cash receivable (12/1.2)	10.00	10.00
Unwinding cost (12 - 10)	2.00	<u>-</u>
Receivables balance at 31 Dec 2025		<u>221.50</u>

8) **Finance costs**

	GH¢'Million
Balance of Int. on 5% Debenture (14.63 - 11.25)	3.38
Unwinding cost on receivable (W7) carrying amount	2.00
	5.38

9) **Property, Plant and Equipment**

	GH¢'Million
Per draft accounts	1,530
Loss on revaluation of land and buildings	(30)
Disposal of plant - Carrying amount	(45)
	1,455

10) **Retained earnings**

	GH¢'Million
Per draft accounts: Balance at 1 January 2025	562.50
Profit for the year as revised	109.53
Dividend declared	(45.00)
Balance at 31 December 2025	627.03

11) **Other Components of Equity**

	GH¢'Million
Balance at 1 January 2025	192.00
Other comprehensive income for the year	64.50
Balance at 31 December 2025	256.50

(Total: 20 marks)

QUESTION FOUR

a)

Adjusted Income Statement of Gbanyan Systems LTD for the Year Ended 31 December 2024

Item	GH¢'000 Adjustment Notes		
Revenue	7,800	-400	Legal dispute: GH¢400,000 deducted
Cost of Sales	(4,500)		
Gross Profit	3,300		
Operating Expenses	(1,800)		
Depreciation	(850)	-250	Understated depreciation corrected
Warranty Expense	(500)	+500	Warranty obligation now recognized
Finance Costs	(200)		
Profit Before Tax	(50)		
Income Tax	(400)		
Net Profit After Tax	(450)		

Extracts of Statement of Financial Position of Gbanyan Systems LTD as at 31 December 2024

Assets	GH¢'000 Adjustment Notes		
Non-Current Assets			
Property, Plant & Equipment	6,150	-250	Depreciation adjustment
Current Assets			
Trade Receivables	1,200	-400	Revenue reversal
Equity			
Retained Earnings	2,350	-1,150	Net profit + cumulative adjustments
Current Liabilities			
Warranty Provision (new)	500	+500	Recognized as current liability

Financial Ratios

- Gross Profit Margin** = $\text{Gross Profit} / \text{Revenue} \times 100$
= $(3,300 / 7,800) \times 100 = 42.31\%$
- Operating Profit Margin** = $\text{EBIT} / \text{Revenue} \times 100$
= $[(3,300 - 1,800 - 850 - 500) / 7,800] \times 100 = (150 / 7,800) \times 100 = 1.92\%$
- Return on Capital Employed (ROCE)** = $\text{EBIT} / \text{Capital Employed} \times 100$
= $(150 / (3,200 + 2,350 + 2,000)) \times 100 = (150 / 7,550) \times 100 = 1.99\%$

4. **Current Ratio** = Current Assets / Current Liabilities
= 3,700 / 2,800 = **1.32 : 1**
5. **Quick Ratio** = (Current Assets - Inventories) / Current Liabilities
= (3,700 - 1,200) / 2,800 = 2,500 / 2,800 = **0.89 : 1**
6. **Receivables Collection Period** = (Trade Receivables / Revenue) × 365
= (1,200 / 7,800) × 365 = **56.15 days**
7. **Payables Payment Period** = (Trade Payables / Cost of Sales) × 365
= (2,300 / 4,500) × 365 = **186.56 days**
8. **Net Asset Turnover** = Revenue / Net Assets
= 7,800 / (10,350 - 4,800) = 7,800 / 5,550 = **1.41 times**
9. **Gearing (Debt / Equity)** = (Long-Term Debt / Equity) × 100
= (2,000 / 5,550) × 100 = **36.04%**

(10 marks)

- b) **Report to the Board of Directors of Sambola Innovations LTD**
Subject: Financial Analysis and Evaluation of Gbanyan Systems Ltd

Introduction

This report presents an analysis of Gbanyan Systems LTD based on its adjusted financial statements for the year ended 31 December 2024. The analysis includes key financial ratios, categorized into profitability, liquidity, efficiency, and gearing. These ratios are interpreted, compared against industry benchmarks in Ghana's technology sector, and evaluated to assess the strategic fit of Gbanyan as a potential acquisition by Sambola Innovations Ltd.

Assumptions

- Adjustments are based solely on the identified anomalies and no further hidden liabilities or assets exist.
- The warranty obligation is expected to materialise within the next 12 months and is therefore classified as a current liability.
- The adjusted figures are assumed to reflect a fair and prudent estimate of Gbanyan's true financial condition.
- Sector averages are accurate and relevant to Gbanyans business model.

Profitability

Ratio	Formula	Gbanyan	Sector Average	Interpretation
Gross Profit Margin	Gross Profit / Revenue	42.31%	50%	Below average; indicates increased cost of sales or pricing pressure.
Operating Profit Margin	EBIT/ Revenue	1.92%	28%	Critically low; profitability is severely impaired after expenses and provisions.
ROCE	EBIT/ Capital Employed	1.99%	28%	Very poor return on capital; signals weak operational efficiency.

Comment: Gbanyan's profitability is significantly below industry standards. This is due to reduced revenue (from disputed income), increased depreciation, and recognition of a major warranty liability.

Liquidity Ratio

Ratio	Formula	Gbanyan	Sector Average	Interpretation
Current Ratio	Current Assets / Current Liabilities	1.32:1	2.5:1	Indicates modest short-term solvency; below acceptable sector threshold.
Quick Ratio	(CA- Inventory)/ CL	0.89:1	1.4:1	Weak quick liquidity; cash and receivables insufficient to cover short-term liabilities.

Comment: Liquidity performance is concerning. Gbanyan may struggle to meet short-term obligations without liquidating inventory or raising external finance.

Efficiency

Ratio	Formula	Gbanyan	Sector Average	Interpretation
Receivables Collection Period	(Receivables/ Revenue) × 365	56.15 days	33 days	Inefficient credit control; delayed customer payments affect cash flow.
Payables Payment Period	(Payables/ COGS) × 365	186.56 days	40 days	Excessive payment delay; may affect supplier relationships.
Net Asset Turnover	Revenue/Net Assets	1.41 times	1.4 times	In line with industry; indicates reasonable asset utilization.

Comment: Gbanyan delays creditor payments substantially – possibly to manage liquidity pressure – but this may be unsustainable. Receivables collection is poor, exacerbating working capital constraints.

Gearing

Ratio	Formula	Gbanyan	Sector Average	Interpretation
Gearing (Debt/Equity)	LT Debt/Equity	36.04%	30%	Moderately above industry; reflects greater financial risk.

Comment: Gearing exceeds acceptable limits, and interest cover is below the critical threshold – raising solvency and funding risk concerns.

Conclusion and Recommendation

The adjusted financial statements of Gbanyan Systems LTD reveal fundamental weaknesses in profitability, liquidity and financial sustainability. Though asset turnover is on par with the industry and the company operates in a strategically aligned space (enterprise tech and AI platforms), the following red flags are notable:

- Earnings are eroded by disputed revenue, high expenses and pending obligations.
- Liquidity is strained, with a current and quick ratio both below sector averages.
- Gearing is slightly high, but combined with weak profits, the leverage becomes risky.

Based on the analysis, Gbanyan is not currently an attractive acquisition target unless:

- The disputed revenue is resolved favorably,
- The warranty risk is mitigated,
- And the operational cost structure is significantly improved post-acquisition.

A thorough operational and legal review is strongly advised before considering this acquisition.

(10 marks)

(Total: 20 marks)

QUESTION FIVE

a)

i) **Understandability**

Financial information is intended to assist users in making economic decisions. For this purpose, it is important that financial information is presented in a form which users can understand. However, this does not mean that complex matters which some users may find difficult to understand, and which some directors may like an excuse to exclude should be left out of financial statements. Reports from which data has been excluded could be incomplete and misleading. The Conceptual Framework states that users can be assumed to have reasonable knowledge of business and economic activities and be prepared to review and analyse the information diligently.

Comparability

In understanding the financial performance of an entity, users will want to compare its results with those of other entities in the same sector and with its own results for previous periods. The concept of comparability is therefore very important. Comparison between entities is made more possible by IFRS Accounting Standards in which there is limited accounting policy choice and by the requirement to disclose accounting policies. So if two entities have applied different accounting policies users can be aware of that and allow for it.

(4 marks)

ii) **Role of consistency within comparability in relation to changes in accounting policy**

Comparing an entity's results with its performance in prior years requires the application of consistency. An entity should treat financial items and transactions in a consistent manner from year to year, by applying the same accounting policies. Where there is a change of accounting policy from one year to the next, the comparative information must be restated to show what the results for the previous year would have been if the new accounting policy had been applied. The statement of changes in equity also shows the effect on the previous year's equity balances of the change of accounting policy. The user is therefore able to adjust for the change of accounting policy and observe the changes in underlying performances.

(3 marks)

b) **Measurement bases of elements of Financial Statement**

Historical cost is whereby assets are recorded at the amount of cash or cash equivalents paid or fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amounts of proceeds received in exchange for the obligation, or in some circumstances at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

Current cost is whereby assets are carried at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset was acquired currently, and liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

Realisable (settlement) value is the amount of cash or equivalents that could currently be obtained by selling an asset in an orderly disposal. Settlement value is the undiscounted amounts of cash and cash equivalents expected to be paid to satisfy the liabilities in the normal course of business.

Present value is the discounted value of the future net cash flows in the normal course of business.

(8 marks)

c) **Accounting under IFRS 15**

Step 1: Identify the contract

The contract to build the tunnel is a valid enforceable agreement and meets IFRS 15 criteria.

Step 2: Identify performance obligations

In construction-type contracts, usually the entire project is a single performance obligation satisfied over time (if the asset is customized and the customer controls the asset as it is built). In this case, a tunnel under a river would qualify.

Step 3: Determine the Transaction Price

- **Fixed component:** GH¢2.6 billion
- **Variable component (contingent payments):** linked to potential unexpected difficulties. Use either expected value or most likely amount method. Only include variable consideration in the transaction price to the extent it is highly probable that it will not result in a significant revenue reversal. There's a 20% chance of additional payment. This implies 80% chance no extra payment is made. Based on IFRS 15, the contingent revenue would not be included in the initial transaction price because it is not highly probable that a significant reversal of revenue will not occur. Initial transaction price = GH¢2.6 billion only.

Step 4: Allocate transaction price

Since it's a single performance obligation, no allocation is necessary.

Step 5: Recognise Revenue

Recognise revenue over time using a progress-based method (e.g. cost-to-cost or percentage of completion). As construction progresses, Lumumba will recognise a proportion of the GH¢2.6 billion revenue.

If unexpected difficulties do arise later, and the right to receive contingent payment becomes probable, then the additional amount would be added to the

transaction price at that point, and revenue recognition would be updated prospectively.

(5 marks)

(Total: 20 marks)