# JULY 2026 PROFESSIONAL EXAMINATIONS
# FINANCIAL REPORTING (PAPER 2.1)
# CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

## PERFORMANCE OF CANDIDATES

Performance varied greatly across the paper. Performance was satisfactory in Questions 1 and 5 (around 70% scored 10 or more marks) due to clear requirements and straightforward adjustments. Performance was average in Questions 3 and 4. However, performance was poor to extremely poor in Questions 2 and specific sub-requirements of other questions due to an inability to apply IFRS standards. Both the highest and lowest performing candidates were clustered and confined to specific examination centres. The general performance reflected that, at best, candidates did not prepare adequately for the examination.

## NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES

### Strengths

Candidates exhibited a reasonable understanding of standard consolidation adjustments, including intra-group trading, provision for unrealized profit (PUP), and Property, Plant and Equipment (PPE) adjustments. Candidates successfully described the recognition and measurement of intangible assets under IAS 38. In Question 3, candidates demonstrated good adjustments of non-current assets at fair value (IAS 16) and determination of deferred tax liabilities (IAS 12). Furthermore, candidates demonstrated good professional communication and report-writing skills suitable for Board of Directors.

### Weaknesses

Candidates were highly unfamiliar with preparing consolidated statement of changes in equity. There was widespread ignorance of IFRS 5 (identifying impaired building values/closure costs), IAS 40 (transferring to Investment Property), and IFRS 12 (disclosures for unconsolidated structured entities). Fewer than 5% of candidates could properly address revenue recognition under IFRS 15 or split convertible loan notes under IAS 32/IFRS 9. About 90% performed extremely poorly on government grants (IAS 20). In ethics, about 40% of candidates could fully utilise the specific scenario facts to address the question. A glaring failure in basic accounting concepts was also observed, with almost all candidates presenting a bank overdraft as a current asset instead of a current liability.

The root cause of the poor performance was a lack of foundational knowledge in the relevant IFRS areas tested, poor understanding of basic accounting concepts and a lack of exposure to new or infrequently tested requirements.

**QUESTION ONE**

Sie LTD acquired 90% of Feh LTD on 1 January 2025 for GH¢4,000 million when Feh LTD's retained earnings were GH¢800 million.

Below are the financial statements of the companies.

**Statement of Profit or Loss for The Year Ended 31 December 2025**

| | Sie LTD | Feh LTD |
|---|---|---|
| | GH¢'million | GH¢'million |
| Revenue | 20,000 | 4,580 |
| Cost of sales | (12,000) | (2,000) |
| **Gross profit** | **8,000** | **2,580** |
| Distribution cost | (2,100) | (300) |
| Administration cost | (1,400) | (500) |
| **Operating profit** | **4,500** | **1,780** |
| Investment income | 90 | - |
| Finance costs | (600) | (150) |
| **Profit before tax** | **3,990** | **1,630** |
| Tax | (700) | (130) |
| **Profit for the year** | **3,290** | **1,500** |

**Statement of Financial Position as at 31 December 2025**

| | Sie LTD | Feh LTD |
|---|---|---|
| | GH¢'million | GH¢'million |
| Investment in Feh LTD | 4,000 | - |
| Other assets | 20,000 | 5,000 |
| **Total assets** | **24,000** | **5,000** |
| **Equity** | | |
| Share capital | 5,000 | 1,000 |
| Retained earnings | 15,690 | 2,200 |
| **Total equity** | 20,690 | 3,200 |
| **Liabilities** | 3,310 | 1,800 |
| **Total equity and liabilities** | **24,000** | **5,000** |

**Additional information:**

i) At the date of acquisition, the fair value of Feh LTD's net assets were equal to their carrying value with the exception of an item of plant that had a fair value of GH¢200 million in excess of its carrying value and a remaining useful life of four years.

ii) During the year, Sie LTD sold goods to Feh LTD for GH¢100 million. These goods were sold at a margin of 20% and one quarter remained in inventory at the year-end.

iii) During the year, Feh LTD sold goods to Sie LTD for GH¢180 million. These goods were sold at a mark-up of 50% and one half remained in the inventory at the year-end.

iv) At the year-end, there were no outstanding inter-company current account balances.

v) Goodwill is to be calculated using the proportionate basis. An impairment review at the year-end revealed that no impairment loss arose.

vi) Both companies paid dividends during the year. The dividend distributed by Sie LTD was GH¢200 million and that of Feh LTD was GH¢100 million. The investment income that Sie LTD has recognised is the dividend received from Feh LTD shortly before the year-end.

**Required:**

a) Prepare the Consolidated Statement of Profit or Loss for Sie Group for the year ended 31 December 2025.
b) Prepare the Consolidated Statement of Changes in Equity for Sie Group for the year ended 31 December 2025.
c) Prepare the Consolidated Statement of Financial Position for Sie Group as at 31 December 2025.

**(Total: 20 marks)**

## QUESTION TWO

a) ***IFRS 5: Non-current Assets Held for Sale and Discontinued Operations*** sets out the principles governing the measurement and presentation of non-current assets that are expected to be realised through sale rather than through continuing use. The standard also deals with reporting the results of operations that qualify as discontinued.

Choico PLC is a long-established travel agent, operating through a network of retail outlets and an online store. In recent years, the business has seen its revenue from the online store grow strongly and that from retail outlets decline significantly. On 25 January 2025, the Board decided to close the retail network at the financial year end of 31 July 2025 and put the buildings up for sale on that date. The Directors are seeking advice regarding the treatment of the buildings in the statement of financial position, as well as the treatment of the trading results of the retail division for the year.

The following figures are available for the financial year end 31 July 2025:

| | **GH¢'million** |
|---|---|
| Carrying value of buildings | 20 |
| Fair value less costs to sell of buildings | 17.2 |
| Other expected costs of closure | 3.9 |

Trading results

| | **Year ended 31 July 2025** | | **Year ended 31 July 2024** | |
|---|---|---|---|---|
| | **Online Store GH¢'million** | **Retail Outlet GH¢'million** | **Online Store GH¢'million** | **Retail Outlet GH¢'million** |
| Revenue | 39 | 9 | 32 | 12 |
| Cost of Sales | (13) | (7) | (11) | (9) |
| Gross profit | 26 | 2 | 21 | 3 |
| Operating costs | (10) | (5) | (8) | (5) |
| Profit before tax | 16 | (3) | 13 | (2) |

**Required:**

Draft the Statement of Profit or Loss for Choico PLC for year ended 31 July 2025, together with the comparative for 2024, taking the above information into account. **(7 marks)**

b) ***IAS 38: Intangible Assets*** sets out the principles of accounting for the recognition and measurement of intangible assets. The standard differentiates between intangible assets acquired individually, those acquired as part of a business combination and those which are internally generated.

**Required:**

State the requirements of IAS 38 with respect to the initial recognition and measurement of intangible assets:

i) Acquired separately for cash. **(1 mark)**

ii) Acquired as part of a business combination. **(1 mark)**

iii) Internally generated. **(1 mark)**

c) Bobich LTD (Bobich) offers stylish matching outfits for adults and kids, contemporary styles and specialises in wardrobe staples plus men's and children's wear for special occasions. The company has a financial year end 31 March and adopts the revaluation model of ***IAS: 16 Property, Plant & Equipment*** and the fair value model of ***IAS 40: Investment Property.***

Bobich owns a piece of property it purchased on 1 April 2022 for GH¢3.5 million. The land component of the property was estimated to be GH¢1 million at the date of purchase. The useful economic life of the building on this land was estimated to be 25 years on 1 April 2022. The property was used as the corporate headquarters for two years from that date.

On 1 April 2024, the company moved its headquarters to another building and leased the entire property for five years to an unrelated tenant on an arm's length basis in order to benefit from the rental income and future capital appreciation. The fair value of the property on 1 April 2024 was GH¢4.1 million (land component GH¢1.9 million) and on 31 March 2025, GH¢4.8 million (land component GH¢2.1 million). The estimate of useful economic life remained unchanged throughout the period. Land and buildings are considered to be two separate assets by the directors of Bobich.

**Required:**

In accordance with IAS 16 and IAS 40, show the appropriate financial reporting treatment in the financial statements of Bobich for the year ended 31 March 2025. **(8 marks)**

d) ***IFRS 12: Disclosure of Interests in Other Entities*** is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'.

Yeayen LTD sponsors a structured entity but holds no equity interest. It provides guarantees and has decision-making power over key activities.

**Required:**

Under IFRS 12, what are the disclosure requirements under this arrangement? **(2 marks)**

**(Total: 20 marks)**

**QUESTION THREE**

The following trial balance relates to Jalerbah LTD as at 31 March 2025:

| | GH¢'000 | GH¢'000 |
|---|---|---|
| Equity shares | | 150,000 |
| Other component of equity | | 70,800 |
| Retained earnings at 1 April 2024 | | 48,000 |
| 5% convertible loan notes (note ii) | | 180,000 |
| Land & buildings at cost (land element GH¢84 million) (note iii) | 384,000 | |
| Plant & Equipment (note iii) | 496,200 | |
| Accumulated depreciation at 1 April 2024: | | |
| Buildings | | 30,000 |
| Plant and Equipment | | 220,200 |
| Inventory at 31 March 2025 | 423,600 | |
| Bank | | 16,200 |
| Current tax (note iv) | 9,300 | |
| Deferred tax (note iv) | | 28,800 |
| Revenue (note i) | | 1,607,400 |
| Cost of sales | 999,600 | |
| Distribution costs | 282,000 | |
| Loan note interest paid (note ii) | 9,000 | |
| Trade payables | - | 252,300 |
| | **2,603,700** | **2,603,700** |

**The following notes are relevant:**

i) Revenue includes an amount of GH¢96 million for a sale made on 1 April 2024. The sale relates to a single product and includes ongoing servicing from Jalerbah LTD for four years. The normal selling price of the product would be GH¢108 million in addition to a servicing charge component of GH¢3 million per annum (GH¢12 million in total).

ii) Jalerbah LTD issued 1,800,000 GH¢100 5% convertible loan notes on 1 April 2024. The loan notes can be converted to equity shares on the basis of 150 shares for each GH¢600 loan note on 31 March 2027 or redeemed at par for cash on the same date. An equivalent loan note without the conversion rights would have required an interest rate of 8%.
The present value of GH¢1 receivable at the end of each year, based on discount rates of 5% and 8%, are:

| | 5% | 8% |
|---|---|---|
| End of year 1 | 0.95 | 0.93 |
| 2 | 0.91 | 0.86 |
| 3 | 0.86 | 0.79 |

iii) **Non-current assets:**
Due to rising property prices, Jalerbah LTD decided to revalue its land and buildings on 1 April 2024 to their market value. The values were confirmed at that date as land GH¢96 million and buildings GH¢313.2 million with the buildings having an estimated remaining life of 18 years at the date of revaluation. Jalerbah LTD intends to make a transfer from the

revaluation surplus to retained earnings in respect of the annual realisation of the revaluation surplus.

Plant and equipment is depreciated at 15% per annum using the reducing balance method. No depreciation has yet been charged on any non-current asset for the year ended 31 March 2025. All depreciation, amortisation and impairment are charged to cost of sales. There were no acquisitions or disposals of non-current assets during the year.

iv) The Directors estimate that a provision for income tax for the year ended 31 March 2025 of GH¢68.4 million is required. The balance on current tax in the trial balance represents the under/over provision of the tax liability for the year ended 31 March 2024. At 31 March 2025, Jalerbah LTD had taxable temporary differences (excluding those referred to in note *(iii)* above relating to revaluation of land and buildings) of GH¢111 million requiring a provision for deferred tax. Any deferred tax movement (other than those in note *(iii)* above) should be reported in profit or loss.

The income tax rate applicable to Jalerbah LTD is 25%.

**Required:**

a) Prepare the Statement of Profit or Loss and Other Comprehensive Income for Jalerbah LTD for the year ended 31 March 2025.
b) Prepare the Statement of Changes in Equity for Jalerbah LTD for the year ended 31 March 2025.
c) Prepare the Statement of Financial Position of Jalerbah LTD as at 31 March 2025**.**

**(Total: 20 marks)**

**QUESTION FOUR**

Ndorbor LTD is a company in the healthcare industry and operates in all the regional capitals across Ghana. Its share price is GH¢2 per share.
The Chairman of the Finance Committe of the Board (a fellow of ICAG) advised that the financial ratios of Ndorbor LTD should be computed and compared to industry averages to assess performance. Additionally, he suggested the ratios be computed ***excluding the effect of the government grant*** to better reflect the company's true performance.

The following draft financial statements relate to Ndorbor LTD.

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

| | 2024 | 2023 |
|---|---|---|
| | **GH¢** | **GH¢** |
| Revenue (Patient Services) | 5,180,000 | 5,100,000 |
| Cost of Goods Sold | (2,000,000) | (2,500,000) |
| **Gross Profit** | **3,180,000** | **2,600,000** |
| Other Income | 20,000 | - |
| Salaries & Wages | (1,200,000) | (1,100,000) |
| Utilities | (100,000) | (110,000) |
| Medical Equipment Maintenance | (90,000) | (100,000) |
| Depreciation | (150,000) | (170,000) |
| Administrative & General Expenses | (250,000) | (280,000) |
| Interest Expense | (40,000) | (35,000) |
| Profit Before Tax | 1,370,000 | 805,000 |
| Income Tax | (155,000) | (413,750) |
| **Net Profit After Tax** | **1,215,000** | **391,250** |
| Dividends paid | (415,000) | - |
| **Retained Profit for the Year** | **800,000** | **391,250** |

**Statement of Financial Position as at 31 December 2024**

| | 2024 | 2023 |
|---|---|---|
| | **GH¢** | **GH¢** |
| **Non-current assets** | | |
| Medical Equipment | 2,100,000 | 1,800,000 |
| Intangible Assets | 150,000 | 170,000 |
| **Total Non-Current Assets** | **2,250,000** | **1,970,000** |
| **Current Assets** | | |
| Medical Supplies Inventory | 450,000 | 500,000 |
| Accounts Receivable | 400,000 | 470,000 |
| Cash & Bank Balances | 400,000 | 450,000 |
| **Total Current Assets** | **1,250,000** | **1,420,000** |
| **Total Assets** | **3,500,000** | **3,390,000** |
| | | |
| **Equity** | | |
| Share Capital | 1,200,000 | 1,200,000 |
| 10% Irredeemable Preference Shares | 150,000 | - |
| Retained Earnings | 1,200,000 | 400,000 |

| | | |
|---|---|---|
| **Total Equity** | **2,550,000** | **1,600,000** |
| **Non-Current Liabilities** | | |
| Long-term Loans | 420,000 | 350,000 |
| Deferred Income | 160,000 | - |
| **Total Non-Current Liabilities** | **580,000** | **350,000** |
| **Current Liabilities** | | |
| Accounts Payable | 250,000 | 1,270,000 |
| Income Tax Payable | 100,000 | 170,000 |
| Deferred Income | 20,000 | - |
| **Total Current Liabilities** | **370,000** | **1,440,000** |
| **Total Liabilities** | **950,000** | **1,790,000** |
| **Total Equity & Liabilities** | **3,500,000** | **3,390,000** |

**Additional Information:**

i) Deferred income represents a government grant which Ndorbor LTD recognised in its financial statements after complying with the conditions attached to it and receiving it. The grant relates to an asset (medical equipment), and its depreciation for the 2024 financial year amounted to GH¢20,000.

ii) Ndorbor LTD has 6,000,000 ordinary shares in circulation.

iii) Industry Averages for the healthcare industry are as follows:

| **Ratio** | **Industry Average** |
|---|---|
| Net Profit Margin | 20% |
| Return on Capital Employed (ROCE) | 42% |
| Gross Profit Margin | 70% |
| Net Assets Turnover | 1.5 |
| Dividend Yield | 5% |
| Earnings Per Share | 0.15 |
| Price Earnings Ratio | 9 |
| Debtors Payment Period | 30 days |
| Inventory Turnover Period | 70 days |

**Required:**

a) Show the adjusting entries to remove the government grant. **(2 marks)**

b) Calculate the equivalent ratios of Ndorbor LTD for the year ended 31 December 2024 after effecting the adjusting entries. **(8 marks)**

c) Using the ratios computed in *(b)*, prepare a brief report assessing the performance of Ndorbor LTD to the Board. **(10 marks)**

**(Total: 20 marks)**

## QUESTION FIVE

a) Bridget is a newly qualified Chartered Accountant who was given an internship appointment with a Sole Practitioner, Dr. Donaldy for one year. The firm has a client base ranging from rural banks, commercial enterprises and schools.

Purity Commercial Bank is a listed company with about one hundred thousand (100,000) depositors with very tight reporting timelines. The Head of Finance resigned four months to the end of the financial year. The Managing Director, a long time classmate of Bridget in primary school offered her an appointment as Head of Finance as part of the bank's affirmative action policy.

Bridget would be responsible for finalising the financial statements and make them ready for Board approval.

In the course of her work, Bridget made a fundamental error of omission that turned the bank's operating loss to profit. Sensing embarrassment and possible sacking, she decided to create revenue to support the profit declared. She is determined to maintain her position since this will be a life changing opportunity.

**Required:**
Identify and explain the ethical issues arising from the above case. **(10 marks)**

b) Cloud reporting is a modern approach to business intelligence that uses the cloud to deliver financial and operational reports. These reports are accessed through a web browser, which means there is no need to install any software on a local device.

**Required:**
Explain **FOUR** benefits of cloud reporting to a company. **(5 marks)**

c) Tanyiko PLC (Tanyiko) is a pharmaceutical company based in Ghana and a pioneer in the manufacture of high quality pharmaceutical drugs. Tanyiko's inventories valued at GH¢37.3 million in their trial balance is the opening inventories balance measured on the first-in first-out (FIFO) basis. Due to a change in Tanyiko's business, the company decided to change its accounting policy with respect to inventories to a weighted average basis. This resulted in the following valuation of inventory:

| | **31 December 2023** | **31 December 2024** |
|---|---|---|
| | **GH¢'000** | **GH¢'000** |
| FIFO | 33,200 | 37,300 |
| Weighted average | 30,300 | 34,100 |

Closing inventories at 31 December 2025, measured under the weighted average basis, amounted to GH¢41.2 million. Profit (calculated using existing policies and accounting estimates) was GH¢240 million for the year ended 31 December 2025.

**Required:**
Using financial statement extracts, explain the financial reporting treatment of the above transaction in accordance with IFRS for the year ended 31 December 2025. **(5 marks)**

**(Total: 20 marks)**

**SUGGESTED SOLUTION**

**QUESTION ONE**

a) **Sie Group**
**Consolidated Statement of Profit or Loss for the year ended 31 December 2025**

| | **GH¢' million** |
|---|---|
| Revenue (20,000 + 4,580 - 100 - 180) | 24,300 |
| Cost of sales (W7) | (13,805) |
| Gross profit | 10,495 |
| Distribution costs (2,100 + 300) | (2,400) |
| Administration expenses (1,400 + 500) | (1,900) |
| Operating profit | 6,195 |
| Investment income (90 less inter-company 90) | - |
| Finance costs (600 + 150) | (750) |
| Profit before tax | 5,445 |
| Tax (700 + 130) | (830) |
| Profit for the year | **4,615** |
| Profit for the year attributable to: | |
| Parent | 4,473 |
| NCI | 142 |
| | 4,615 |

b) **Sie Group**
**Consolidated Statement of changes in equity for the year ended 31 December 2025**

| | **Share Capital GH¢' million** | **Retained Earnings GH¢' million** | **NCI GH¢' million** | **Total Equity GH¢' million** |
|---|---|---|---|---|
| Opening Balance | 5,000 | 12,600 | - | 17,600 |
| Acquisition of a subsidiary | | | 200 | 200 |
| Profits for the year | | 4,473 | 142 | 4,615 |
| Less dividends | - | 200 | (10) | (210) |
| **Closing balance** | **5,000** | **16,873** | **332** | **22,205** |

c) **Sie Group**
**Statement of Financial Position as at 31 Dec 2025**

| | GH¢' million |
|---|---|
| Assets | |
| Goodwill | 2,200 |
| Other Assets(W6) | 25,115 |
| | **27,315** |
| Equity and liabilities | |
| Equity | |
| Share capital | 5,000 |
| Retained earnings (W5) | 16,873 |
| | 21,873 |
| NCI (W4) | 332 |
| Liabilities (3,310+1,800) | 5,110 |
| Total equity and liabilities | **27,315** |

**W1 Group Structure**
Sie LTD has 90% interest in Feh LTD;
NCI has 10%
The acquisition was one year ago.

**W2 Net Assets**

| | **At acquisition GH¢' million** | **At reporting GH¢' million** | **Post-acq GH¢' million** |
|---|---|---|---|
| Share capital | 1,000 | 1,000 | - |
| Retained earnings | 800 | 2,200 | 1,400 |
| Fair value adjustment | 200 | 200 | - |
| Depreciation(¼ × 200) | - | (50) | (50) |
| Less the purp (180m × 1/2) × 50/150) subsidiary is the seller) | - | (30) | (30) |
| **Total** | **2,000** | **3,320** | **1,320** |

| **W3 Goodwill** | **GH¢' million** |
|---|---|
| FV of parent's investment | 4,000 |
| Net assets at acquisition (90% × 2,000) | (1,800) |
| | **2,200** |

| **W4 NCI** | **GH¢' million** |
|---|---|
| NCI at acquisition as a proportion of net assets: | |
| 10% × 2,000 | 200 |
| Plus the NCI% of the subsidiary's post-acquisition profits: | |
| 10% × 1,320 | 132 |
| NCI at the reporting date | **332** |

| **W5 Group retained earnings** | **GH¢' million** |
|---|---|
| Parent's retained earnings | 15,690 |
| Less the PURP (parent is seller) | (5) |
| Plus the parent's % of the post-acquisition profits(90% × 1,320) | 1,188 |
| Total | **16,873** |

| **W6 Other Assets** | **GH¢' million** |
|---|---|
| Parent | 20,000 |
| Subsidiary | 5,000 |
| Fair value adjustment | 200 |
| Less depreciation | (50) |
| Less PURP (parent is seller) | (5) |
| Less PURP (subsidiary is seller) | (30) |
| Total assets | **25,115** |

| **W7 Cost of sales** | **GH¢' million** |
|---|---|
| Parent | 12,000 |
| Subsidiary | 2,000 |
| Less the inter-company | (100) |
| Less the inter-company | (180) |
| Plus the PURP (parent is seller) | 5 |
| Plus the PURP (subsidiary is seller) | 30 |
| Plus the additional depreciation | 50 |
| Total | **13,805** |

| **W8 Profit for the year attributable to the NCI** | **GH¢' million** |
|---|---|
| NCI% of the subsidiary's profits (10% × 1,500) | 150 |
| Less the NCI% of depreciation on FVA (10% × 50) | (5) |
| Less the NCI% of the PURP (subsidiary is seller) (10% × 30) | (3) |
| NCI profit | **142** |

**W9**

| | |
|---|---|
| Unsold inventory at the year-end | Gross Profit Margin |
| (¼ × GH¢100m) × 20% | GH¢5m |
| | |
| Unsold inventory at the year-end | Gross Profit Margin |
| (¼ × GH¢180m) × 50/150 | GH¢3m |

**(Marks are evenly spread using ticks)**
**(Total: 20 marks)**

**EXAMINER'S COMMENTS**

Candidates demonstrated a reasonable understanding of the requirements. However, due to poor preparation on consolidated statement of changes in equity, most candidates gave wrong answers by giving values that would be expected in the consolidated statement of net assets instead of the consolidated statement of changes in equity.

Future candidates should not assume that frequently asked questions will be tested every time. They need to study the syllabus thoroughly and adequately in order to prepare for every requirement that may be tested.

## QUESTION TWO

a) **Choico PLC**
**Statement of Profit or Loss For the Year Ended 31 July 2025**

| | 2025 GH¢' million | 2024 GH¢' million |
|---|---|---|
| **Continuing Operations** | | |
| Revenue | 39.00 | 32.00 |
| Cost of sales | (13.00) | (11.00) |
| **Gross Profit** | **26.00** | **21.00** |
| Operating expenses | (10.00) | (8.00) |
| Profit before Tax | 16.00 | 13.00 |
| Income tax expense | - | - |
| **Profit for the year from continuing operations** | **16.00** | **13.00** |
| Loss for the year from discontinued operations (W1) | (9.70) | (2.00) |
| **Total profit for the year** | **6.30** | **11.00** |

**W1 Profit/(loss) from discontinued operations**

| | 2025 GH¢' million | 2024 GH¢' million |
|---|---|---|
| Revenue | 9.00 | 12.00 |
| Cost of Sales | (7.00) | (9.00) |
| **Gross Profit** | **2.00** | **3.00** |
| Operating Expenses | (5.00) | (5.00) |
| Operating profit | (3.00) | (2.00) |
| Other costs (3.90+2.80(W2)) | (6.70) | - |
| **Profit for the year from continuing operations** | **(9.70)** | **(2.00)** |

**W2 Impairment loss on buildings**

| | GH¢' million |
|---|---|
| Carrying amount | 20.00 |
| Cost of Sales | (17.20) |
| **Gross Profit** | **2.80** |

**(Marks are evenly spread using ticks = 7 marks)**

b) **Specific guidance for certain categories of intangible asset:**

i) If the asset was purchased separately, recognise it as an intangible at cost. If the asset is acquired for free or nominal sum by way of government grant e.g. radio licence, it may be recognised at fair value (under IAS 20 government grants). If this option is not taken, it must be recognised at cost including directly attributable expenditure.

**(1 mark)**

ii) If purchased as part of a business, capitalise the asset at fair value if it can be reliably measured on initial recognition. If not, include with goodwill. The cost of assets acquired under an exchange is measured as the value of the asset given up in return.

**(1 mark)**

iii) Internally generated goodwill should never be recognised. Internally generated intangibles other than goodwill may not be recognised unless there is an active market in homogeneous assets allowing a fair value to be attributed to the asset.

**(1 mark)**

c)

| | **Land** | **Buildings** | **Total** |
|---|---|---|---|
| | **GHS'000** | **GHS'000** | **GHS'000** |
| Cost at 1 April 2022 | 1,000 | 2,500 | 3,500 |
| Accum. depreciation for 2 years (2,500/25 x 2) | - | (200) | (200) |
| **Carrying amount at 1 April 2024** | **1,000** | **2,300** | **3,300** |
| Revaluation gain/(loss) - To OCI/(Profit or loss) | 900 | (100) | 800 |
| **Fair value at 1 April 2024 - deemed cost for IAS 40** | **1,900** | **2,200** | **4,100** |
| Fair value gain - To Profit or loss | 200 | 500 | 700 |
| **Fair value at 31 March 2025 - To SOFP** | **2,100** | **2,700** | **4,800** |

**(Marks are evenly spread using ticks = 7 marks)**

d) Under IFRS 12, Yeayen must disclose its involvement with the structured entity, including:

- Nature of the relationship.
- Risks it is exposed to.
- How it affects financial statements.

Even without an equity interest, involvement through guarantees and power requires disclosure.

**(2 marks)**

**(Total: 20 marks)**

**EXAMINER'S COMMENTS**

Candidates appeared to misunderstand the purpose of the questions, with many simply reproducing verbatim the question text as their answers. Candidates provided wrong answers for IAS 40 transfers and mostly ignored or provided incorrect answers for IFRS 12.

Candidates must understand that all areas of the syllabus, including specific disclosures, are open for examination. As a result, they must ensure that they have adequate knowledge of all the relevant accounting standards to pass the examinations.

## QUESTION THREE

a) **Jalerbah LTD**
**Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2025**

| | GH¢'000 |
|---|---|
| Revenue (W1) | 1,600,200 |
| Cost of sales (W2) | (1,058,400) |
| **Gross profit** | **541,800** |
| Distribution costs | (282,000) |
| **Operating profit** | **259,800** |
| Finance costs (W3) | (13,234) |
| **Profit before tax** | **246,566** |
| Income tax expense (W4) | (76,650) |
| **Profit for the year** | **169,916** |
| **Other comprehensive income:** | |
| Gain on revaluation of land and buildings (W6) | 41,400 |
| **Total comprehensive income for the year** | **211,316** |

b) **Jalerbah LTD**
**Statement of Changes in Equtity for the year ended 31 March 2025**

| | Share Capital | OCE | Revaluation surplus | Retained earnings | Total |
|---|---|---|---|---|---|
| | GH¢'000 | GH¢'000 | GH¢'000 | GH¢'000 | GH¢'000 |
| Balance b/f | 150,000 | 70,800 | - | 48,000 | 268,800 |
| Equity option (W6) | | 14,580 | | | 14,580 |
| Total comp. income | | | 41,400 | 169,916 | 211,316 |
| Transfer (W10) | | | (2,400) | 2,400 | - |
| **Balance c/d** | **150,000** | **85,380** | **39,000** | **220,316** | **494,696** |

c) **Jalerbah LTD**
**Statement of Financial Position as at 31 March 2025**

| | GH¢'000 | GH¢'000 |
|---|---|---|
| **ASSETS** | | |
| *Non-current assets:* | | |
| Property, Plant and Equipment (W8) | | 626,400 |
| | | |
| *Current assets:* | | |
| Inventory | | 423,600 |
| **Total Assets** | | **1,050,000** |
| **EQUITY AND LIABILITIES** | | |
| *Equity:* | | |
| Equity shares | | 150,000 |
| Other components of equity | | 85,380 |
| Revaluation surplus | | 39,000 |
| Retained earnings | | 220,316 |
| Total equity | | 494,696 |
| *Non-current liabilities:* | | |
| 5% Convertible loan notes (W3) | 169,654 | |
| Deferred tax (W5) | 41,550 | |
| Deferred revenue (W1) | 4,800 | |
| | | 216,004 |
| *Current liabilities:* | | |
| Trade payables | 252,300 | |
| Current tax payable (W4) | 68,400 | |
| Deferred revenue (W1) | 2,400 | |
| Bank overdraft | 16,200 | |
| | | 339,300 |
| **Total Equity and Liabilities** | | **1,050,000** |

**Workings (In GH¢'000)**

1) **Revenue**

| | |
|---|---|
| Per trial balance | 1,607,400 |
| Less Deferred revenue (see below) | (7,200) |
| | **1,600,200** |

**Product and servicing sale**

Under ***IFRS 15: Revenue from Contracts with Customers***, sales made which include revenue for on-going servicing work must have part of the revenue deferred and any discount offered to stand-alone selling prices must (normally) be allocated to each component pro-rata to the stand-alone selling prices. The stand-alone selling price of the product and the servicing work would be GH¢120,000 (GH¢108,000 and GH¢12,000 (3,000 x 4 years) respectively). The actual combined selling price of GH¢96,000 represents a 20% discount on the stand-alone selling prices ((120,000 – 96,000)/(108,000 + 12,000) x 100). Thus the sales revenue of GH¢96,000 would be allocated GH¢86,400 (108,000 x 80%) to the product and

GH¢9,600 (12,000 x 80%) to the servicing. At 31 March 2025 there are three more years of servicing work, thus GH¢7,200 ((9,600 x 3 years/4 years) must be treated as deferred revenue, split GH¢2,400 (7,200 x 1/3) as a current liability and GH¢4,800 (7,200 x 2/3) as a non-current liability.

2) **Cost of Sales**

| | |
|---|---|
| Per trial balance | 999,600 |
| Depreciation/Amortisation: | |
| Buildings (313,200/18) | 17,400 |
| Plant and equipment ((496,200 – 220,200) x 15%) | 41,400 |
| | **1,058,400** |

3) **5% Convertible loan notes**

The convertible loan notes are a compound financial instrument having a debt and an equity component which must both be quantified and accounted for separately:

| **Year-end** | **Description** | **Cash flow** | **DCF at 8%** | **PV** |
|---|---|---|---|---|
| 2025 | Interest | 9,000 | 0.93 | 8,370 |
| 2026 | Interest | 9,000 | 0.86 | 7,740 |
| 2027 | Interest | 9,000 | 0.79 | 7,110 |
| 2027 | Principal | 180,000 | 0.79 | 142,200 |
| Debt component | | | | 165,420 |
| Equity component | | | | 14,580 |
| Proceeds of issue (1,800 x 100) | | | | 180,000 |

**Amortisation table**

| **Year-end 31 March** | **Opening Balance** | **Interest at 8%** | **Coupon/ Payments** | **Closing Balance** |
|---|---|---|---|---|
| 2025 | 165,420 | **13,234** | (9,000) | **169,654** |
| 2026 | 169,654 | 13,572 | (9,000) | 174,226 |
| 2027 | 174,226 | 14,774 | (189,000) | - |

4) **Income tax expense**

| | |
|---|---|
| Estimated income tax for the year | 68,400 |
| Under provision of tax in the previous year | 9,300 |
| Movement (decrease) in deferred tax (W5) | (1,050) |
| | **76,650** |

5) **Deferred tax**

| | |
|---|---|
| Balance at 1 April 2024 | 28,800 |
| Adjustment in Profit or loss (decrease) (111,000 x 25% = 27,750 - 28,800) | (1,050) |
| Tax on revaluation gain in OCI (W9) | 13,800 |
| **Balance at 31 March 2025** | **41,550** |

6) **Gain on revaluation of land and buildings**

| | Land | Buildings | Total |
|---|---|---|---|
| Revalued amount | 96,000 | 313,200 | 409,200 |
| Carrying amount (300,000 - 30,000) | 84,000 | 270,000 | 354,000 |
| Gain | 12,000 | 43,200 | 55,200 |
| Tax at 25% | (3,000) | (10,800) | (13,800) |
| **Net Gain** | **9,000** | **32,400** | **41,400** |

7) **Transfer to realised reserve**

| | |
|---|---|
| Excess depreciation due to revaluation (43,200/18) | **2,400** |

**Alternatively**

| | |
|---|---|
| Depreciation based on historical cost (300,000/20) | 15,000 |
| Depreciation based on revalued amount (313,200/18) | 17,400 |
| **Excess depreciation due to revaluation** | **2,400** |

8) **Property, Plant and Equipment schedule**

| | Land | Buildings | Plant & Equipment | Total |
|---|---|---|---|---|
| COST/VALUATION: | **GH¢'000** | **GH¢'000** | **GH¢'000** | **GH¢'000** |
| At 1 April 2024 | 84,000 | 300,000 | 496,200 | 880,200 |
| Valuation gain | 12,000 | 43,200 | | 55,200 |
| At 31 March 2025 | 96,000 | 343,200 | 496,200 | 935,400 |
| | | | | |
| ACCUM. DEPRECIATION: | | | | |
| At 1 April 2024 | - | 30,000 | 220,200 | 250,200 |
| Charge for the year | - | 17,400 | 41,400 | 58,800 |
| At 31 March 2025 | - | 47,400 | 261,600 | 309,000 |
| | | | | |
| CARRYING AMOUNT: | | | | |
| At 31 March 2024 | 96,000 | 313,200 | 276,000 | 685,200 |
| **At 31 March 2025** | **96,000** | **295,800** | **234,600** | **626,400** |

**(Marks are evenly spread using ticks)**
**(Total: 20 marks)**

**EXAMINER'S COMMENTS**

Candidates displayed extremely poor knowledge of IFRS 15 and IAS 32/IFRS 9. Candidates displayed wrong computations of values because they were not able to justify their computations and gave wrong answers on classification of bank overdraft as a current asset instead of a current liability. In subsequent examinations, it will be useful for candidates also to be aware of local statutes such as the Companies Act 2019 (Act 992) which govern the preparation of financial statements.

**QUESTION FOUR**

a)

**Adjusting entries to remove the grant**

| | GH¢ DR | GH¢ CR |
|---|---|---|
| SOP/L - Other income | 20,000 | |
| Deferred income - CL | 20,000 | |
| Deferred income - NCL | 160,000 | |
| Medical Equipment - NCA | | 180,000 |
| SOP/L - Depreciation | | 20,000 |
| | **200,000** | **200,000** |

**(2 marks)**

b) **Adjusted Ratios for 2024**

| Ratio | Formula | Computation (Adjusted) | Answer |
|---|---|---|---|
| Net Profit Margin | (EBIT / Revenue) × 100 | 1,215,000 / 5,180,000 × 100 | 23.5% |
| Return on Capital Employed | EBIT / Capital Employed × 100 | (1,370,000 + 40,000) / (2,550,000 +420,000 − 180,000) × 100 | 47.5% |
| Gross Profit Margin | Gross Profit / Revenue × 100 | (3,180,000 / 5,180,000) × 100 | 61% |
| Net Assets Turnover | Revenue / Net Assets | 5,180,000 / (3,500,000 − 950,000) | 2.03 times |
| Dividend Yield | DPS / Market Price × 100 | (400,000 / 6,000,000) / 2 × 100 | 3.3% |
| Earnings Per Share (EPS) | (Net Profit − Pref. Div) / Ordinary Shares | (1,215,000 − 15,000) / 6,000,000 | GH¢ 0.20 |
| Price-Earnings Ratio | Market Price / EPS | 2 / 0.20 | 10 |
| Debtors Collection Period | (Accounts Receivables/Revenue) × 365 | (400,000 /5,180,000) × 365 | 28 days |
| Inventory Turnover Period | (Inventory / Cost of Sales) × 365 | 450,000/2,000,000 × 365 | 82 days |

**Note:**
Ordinary shares = GH¢1,200,000/GH¢0.20 = 6,000,000 shares

**(8 correctly computed ratios @ 1 mark each = 8 marks)**

c) **Report to the Board of Directors**

**Introduction**
This report presents the financial performance of Ndorbor LTD for the year ended 31st December 2024. The objective is to assess the company's operational efficiency and financial health by analysing key financial ratios and comparing them with the healthcare industry averages. The ratios have been adjusted to exclude the impact of the government grant to provide a more accurate view of Ndorbor LTD's underlying performance.

**Net Profit Margin**
Net Profit Margin measures how much profit a company generates from its revenue after all operating and non-operating expenses have been deducted, excluding interest and tax. **Computation:** 23.5% (Ndorbor LTD) vs. 20% (Industry) **Analysis:** Ndorbor LTD has a higher net profit margin than the industry average, suggesting better operational efficiency and cost control.

**Return on Capital Employed (ROCE)**
ROCE measures how efficiently a company is using its capital to generate profits. **Computation:** 47.5% (Ndorbor LTD) vs. 42% (Industry) **Analysis:** Ndorbor LTD outperforms the industry average, indicating strong capital utilization and returns to investors.

**Gross Profit Margin**
Gross Profit Margin indicates the percentage of revenue that exceeds the cost of goods sold. **Computation:** 61% (Ndorbor LTD) vs. 70% (Industry) **Analysis:** Ndorbor LTD underperforms in this area, suggesting relatively higher costs of goods sold compared to industry peers.

**Net Assets Turnover**
Net Assets Turnover assesses how effectively a company uses its net assets to generate revenue. **Computation:** 2.03 times (Ndorbor LTD) vs. 1.5 times (Industry) **Analysis:** Ndorbor LTD is more efficient than its peers in generating revenue from its asset base.

**Dividend Yield**
Dividend Yield measures the return an investor receives from dividends relative to the share price. **Computation:** 3.3% (Ndorbor LTD) vs. 5% (Industry) **Analysis:** The company pays a lower dividend than the industry average, potentially indicating reinvestment priorities.

**Earnings Per Share (EPS)**
EPS calculates the portion of a company's profit allocated to each outstanding ordinary share. **Computation:** GH¢ 0.20 (Ndorbor LTD) vs. GH¢ 0.15 (Industry) **Analysis:** Ndorbor LTD shows higher profitability per share, signalling stronger shareholder value.

**Price-Earnings (P/E) Ratio**
P/E Ratio indicates how much investors are willing to pay per cedi of earnings. **Computation:** 10.0 (Ndorbor LTD) vs. 9.0 (Industry) **Analysis:** The market values Ndorbor LTD more optimistically compared to peers, likely due to stronger earnings.

**Debtors Collection Period**
This measures how long it takes the company to collect its credit sales. **Computation:** 28 days (NdorborLTD) vs. 30 days (Industry) **Analysis:** Ndorbor LTD collects its debts from customers two days earlier than the average of the industry.

**Inventory Turnover Period**
Inventory Turnover Period calculates the number of days inventory is held before being sold. **Computation:** 82 days (Ndorbor LTD) vs. 70 days (Industry) **Analysis:** Ndorbor LTD holds inventory 12 days longer than the industry average, which could indicate slower stock movement.

**Conclusion**
Overall, Ndorbor LTD has demonstrated strong financial performance, particularly in profitability, capital efficiency, and asset utilization. However, it lags behind in gross profit margin and dividend yield, with room for improvement in managing payables and inventory. Strategic focus on reducing COGS and optimizing working capital will enhance Ndorbor LTD's competitiveness in the healthcare industry.

**(Introduction and conclusion = 2 marks)**
**(8 correctly explained ratios @ 1 mark each = 8 marks)**
**(10 marks)**

**(Total: 20 marks)**

**EXAMINER'S COMMENTS**
Most candidates did not understand the requirements of part (a) regarding IAS 20. In part (b), while formulas were mostly correctly quoted, candidates presented wrong answers by substituting wrong figures into the formulas because they failed to understand the financial statement.

Future candidates should focus on building a solid foundation of knowledge about adjustment of financial statements when given notes under IFRS. It is not enough to have the formulas for calculating financial ratios but must know how to analyse the figures to make the right decisions. From the responses, it is evident that some candidates knew the formulas for financial ratios but were unable to apply them correctly.

## QUESTION FIVE

a) **Ethical issues**

**Breach of integrity**

The fundamental principle of integrity requires an accountant to be straightforward and honest and not to be associated with information that is false or misleading. Bridget's decision to deliberately fabricate revenue to convert the bank's operating loss into a declared profit is a direct breach of integrity. This was driven by a self-interest threat; her personal desire to protect her life-changing appointment and avoid the embarrassment and possible sacking that disclosure of the error would bring. Her financial and career interest inappropriately influenced her professional judgment, leading her into outright financial statement fraud.

**Breach of objectivity**

Objectivity requires that professional judgment not be compromised by bias, conflict of interest, or undue influence. Bridget's appointment as Head of Finance arose from a personal relationship. She was a childhood classmate of the Managing Director, rather than a merit-based process appropriate for such a sensitive role at a listed bank with 100,000 depositors. This familiarity threat compromised the objectivity of the appointment process itself and likely coloured Bridget's own judgment, making her feel personally obligated and reluctant to disappoint or embarrass her benefactor by admitting the error.

**Breach of professional competence and due care**

This principle requires accountants to only undertake work they are competent to perform, and to act diligently and in accordance with applicable technical and professional standards. As a newly qualified accountant still under an internship/training contract, Bridget arguably lacked the depth of experience required to independently finalise the financial statements of a listed bank with complex reporting requirements and tight regulatory timelines. The self-interest threat of wanting to secure the role likely led her to accept responsibilities beyond her competence level, rather than seeking assistance or declining tasks she was not yet equipped to handle.

**Breach of professional behaviour**

Professional behaviour requires compliance with relevant laws and regulations and avoidance of conduct that discredits the profession. Sensing potential embarrassment and possible sacking, Bridget acted under an intimidation threat, a perceived pressure that she would lose her position if the true financial results were revealed. This pressure led her to violate not only accounting standards but also banking and securities regulations applicable to a listed, deposit-taking institution, thereby discrediting the profession and exposing herself to disciplinary and legal consequences.

**Breach of Confidentiality/Public Interest Duty**

Although confidentiality is typically about safeguarding information, the broader public interest dimension of the Code requires accountants preparing financial statements to ensure information reported to stakeholders is accurate and not manipulated to conceal errors they themselves made. Having identified her own error, Bridget was placed in a position of reviewing and correcting her own work, but rather than objectively correcting it and reporting to the Board/Audit Committee, she concealed and compounded it, betraying the trust of depositors, shareholders, and regulators who rely on the integrity of the bank's reported financial position. **(4 relevant issues @ 2.5 marks each = 10 marks)**

b) **Benefits of cloud reporting**

**Accessibility**

Cloud reporting allows authorised users to access financial and operational reports from anywhere, at any time, using any internet-enabled device, since reports are accessed through a web browser rather than installed software. This is particularly beneficial for organisations with multiple branches, remote workers or management teams that travel frequently, as decision-makers can review real-time reports without being physically present in the office.

**Cost savings**

Because there is no need to install and maintain software on individual local devices, companies save on costs relating to software licensing, hardware upgrades, IT infrastructure and ongoing maintenance. Cloud reporting typically operates on a subscription model, converting large upfront capital expenditure into predictable operating expenses and reducing the need for a large in-house IT support team.

**Real-time data and improved decision-making**

Cloud reporting systems are often integrated directly with the company's underlying transactional systems, enabling reports to be updated in real time or near real time. This ensures that management and other stakeholders have access to the most current financial and operational information, supporting faster and more informed decision-making, rather than relying on outdated periodic reports.

**Scalability and flexibility**

Cloud-based reporting solutions can easily scale up or down based on the company's changing needs. For example, adding more users, increasing storage capacity, or incorporating additional reporting modules without significant additional investment in physical infrastructure. This flexibility makes cloud reporting suitable for both small businesses and large enterprises experiencing growth or seasonal fluctuations in reporting demands.

**Enhanced collaboration and data sharing**

Since reports are hosted centrally on the cloud, multiple users across different departments or locations can simultaneously access, view and collaborate on the same reports, ensuring everyone is working from a single, consistent set of data. This reduces the risk of version-control errors and improves coordination between finance, operations and management teams.

**(4 relevant points @ 1.25 marks each = 5 marks)**

c) Change of accounting policy

| | 31 December 2025 | 31 December 2024 |
|---|---|---|
| | **GH¢'000** | **GH¢'000** |
| FIFO | 33,200 | 37,300 |
| Weighted average | 30,300 | 34,100 |
| Decrease under weighted average | (2,900) | (3,200) |

**Statement of changes in equity extract**

| | |
|---|---|
| Balance at 1 January 2024 | XXX |
| Change in accounting policy | (2,900) |
| | |
| Total comprehensive for the year (2,900 – 3,200) | (300) |

**Statement of Financial Position as at 31 December 2025 extract**

| | **GH¢'000** |
|---|---|
| Inventories | 41,200 |

**(5 marks)**

**(Total: 20 marks)**

**EXAMINER'S COMMENTS**

Candidates generally understood the requirements but presented contrary answers by deviating in their responses. While they identified ethical isues, they failed to utilize the facts given in the scenario to sufficiently address the requirements of the question.

Future candidates should focus on developing their practical understanding of ethical principles. Rather than memorizing general rules, they should engage in practicing ethical decision-making, applying the relevant principles to specific scenarios, including identifying specific ethical concerns raised by a particular scenario.

With regard to the changes in accounting policy, candidates were able to compute the decrease under weighted average but failed to present it under the statement of changes in equity extract.

**CONCLUSION AND RECOMMENDATIONS**

Candidates must widen the scope of their studies and not leave out any syllabus areas simply because they are infrequently tested (such as the consolidated statement of changes in equity). Candidates need to develop a solid foundation in accounting standards (IFRS 5, IAS 40, IFRS 12, IFRS 15, IAS 32/IFRS 9, IAS 20, and IAS 8) rather than relying on a superficial understanding. Candidates are strictly advised to review basic accounting concepts, ensuring items like bank overdrafts are presented as current liabilities. In ethics, candidates should engage in practicing ethical decision-making by actively applying relevant principles to the specific scenario facts provided. Finally, candidates must ensure they correctly adjust base financial figures before attempting to calculate financial ratios.

Future candidates should not assume that only frequently asked questions will be tested; thorough and comprehensive syllabus coverage is mandatory. Candidates should also be aware of local statutes, such as the Companies Act 2019 (Act 992), which govern the preparation of financial statements in Ghana. Ultimately, theoretical knowledge is insufficient on its own; practical application is the key to succeeding in subsequent examinations.