STANDARD OF THE PAPER
The standard of the paper was the same as previously administered ones. The questions were spread well enough to cover all areas of the syllabus. The amount of work (the relevant workings and the final answer) required by questions was commensurate with the allotted time and marks. The questions were standard for this level of examination. Generally the questions were clear in their requirements.

GENERAL PERFORMANCE OF CANDIDATES
Generally, performance was below average. This could be attributed to lack of adequate preparation by the candidates. Performance at various centres appeared to be the same. There was no similarity of answers to suggest any possible copying.

STRENGTHS OF CANDIDATES
Candidates showed improved understanding of appraisal of financial performance and financial position and integrated reporting; they scored high marks in those areas.

WEAKNESSES OF CANDIDATES
Weaknesses of candidates can be summarized as follows:
- Many candidates demonstrated lack of basic and relevant knowledge in accounting standards.
- Some candidates showed lack of effective time management in answering questions. They spent too much time on questions they believed they could handle; this left them with little time to tackle other questions satisfactorily. Candidates should be taught how to allocate time to questions according to the allotted marks and to strictly respect time allocation. They should move to another question when the time allocated is spent.
- Some candidates were not adequately prepared for the examination and as a result scored very low marks.
- Several candidates did not attempt all parts of the questions. This reduced their chances of scoring pass marks.
- Some candidates answered the same question on several non-consecutive pages without cross-referencing the pages.
- Some candidates displayed very poor handwriting making their presentation almost illegible.
QUESTION ONE

a) Sawaba Ltd (Sawaba) is a listed entity incorporated in Ghana with the object of producing and selling Designed clothing. The functional and presentation currency of Sawaba is the Ghana cedi (GH¢). In its quest to extend its market outside Ghana, the directors of the company decided to acquire a subsidiary in Nigeria. The corporate name of the investee entity is Enugu Plc (Enugu).

In pursuit to its agenda, Sawaba acquired 4,044,000 of the shares in Enugu for GH¢1,680,000 on 31 December 2014 when Enugu's retained earnings stood at ₦5,752,000. Enugu operates as an autonomous subsidiary. Its functional currency is the Nigerian Naira (₦). The fair value of the identifiable net assets of Enugu were equivalent to their book values at the acquisition date.

The draft financial statements of Sawaba and its subsidiary, Enugu for 2017 financial year are set out below.

**Statements of Profit or Loss and Comprehensive Income for the year ended 31 December 2017**

<table>
<thead>
<tr>
<th></th>
<th>Sawaba GH¢’000</th>
<th>Enugu ₦’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>80,850</td>
<td>194,250</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>(71,000)</td>
<td>(155,100)</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>9,850</td>
<td>39,150</td>
</tr>
<tr>
<td><strong>Distribution and administrative expenses</strong></td>
<td>(8,800)</td>
<td>(11,700)</td>
</tr>
<tr>
<td><strong>Investment income</strong></td>
<td>1,440</td>
<td>-</td>
</tr>
<tr>
<td><strong>Profit before tax</strong></td>
<td>2,490</td>
<td>27,450</td>
</tr>
<tr>
<td><strong>Income tax expense</strong></td>
<td>(600)</td>
<td>(9,450)</td>
</tr>
<tr>
<td><strong>Profit/Total Comprehensive Income for the year</strong></td>
<td>1,890</td>
<td>18,000</td>
</tr>
<tr>
<td><strong>Other Comprehensive Income: Revaluation Surplus</strong></td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**Statement of Financial Position as at 31 December 2017**

<table>
<thead>
<tr>
<th></th>
<th>Sawaba GH¢’000</th>
<th>Enugu ₦’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>5,740</td>
<td>9,720</td>
</tr>
<tr>
<td>Investment in Enugu</td>
<td>1,680</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Non-current assets</strong></td>
<td>7,420</td>
<td>9,720</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>3,980</td>
<td>16,632</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>3,260</td>
<td>9,144</td>
</tr>
<tr>
<td>Cash</td>
<td>480</td>
<td>4,032</td>
</tr>
<tr>
<td><strong>Total Current assets</strong></td>
<td>7,720</td>
<td>29,808</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital (issued at ₦0.5 for Enugu)</td>
<td>236</td>
<td>2,696</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>400</td>
<td>-</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>604</td>
<td>28,120</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td>1,240</td>
<td>30,816</td>
</tr>
</tbody>
</table>
Non-current liabilities
Loans 3,840 -

Current liabilities
Trade payables 10,060 8,712

\[ \text{15,140} \quad \text{39,528} \]

i) Exchange rates moved as follows:
- 31 December 2014: \( \text{₦4.40} = \text{GH¢1.00} \)
- 31 December 2015: \( \text{₦4.16} = \text{GH¢1.00} \)
- 31 December 2016: \( \text{₦4.00} = \text{GH¢1.00} \)
- 15 May 2017: \( \text{₦3.90} = \text{GH¢1.00} \)
- 31 December 2017: \( \text{₦3.60} = \text{GH¢1.00} \)

Average for 2017: \( \text{₦3.75} = \text{GH¢1.00} \)

ii) Enugu paid an interim dividend of \( \text{₦7,488,000} \) on 15 May 2017. Sawaba also paid an interim dividend of \( \text{GH¢1,400,000} \) on 30 September 2017. No other dividends were paid or declared in 2017.

iii) Assessment of consolidation goodwill for impairment indicated nil impairment in the consolidated financial statements by 31 December 2017. No goodwill impairment had been recognised in the previous years.

iv) Group policy is to measure non-controlling interests at fair value at the acquisition date. The fair value of the non-controlling interests in Enugu was measured at \( \text{GH¢540,000} \) on 31 December 2014.

**Required:**
Prepare the consolidated statements of profit or loss and other comprehensive income, an extract from the statement of changes in equity for income surplus for the year ended 31 December 2017 and the consolidated statement of financial position at 31 December 2017 for Sawaba Group. (15 marks)

b) On 30 June 2016, Afoko Ltd acquired a 100% interest in Anyidohu Ltd, a public limited company, for a cash consideration of \( \text{GH¢195 million} \). Anyidohu's identifiable net assets were fair valued at \( \text{GH¢160 million} \). On 30 November 2017, Afoko disposed of 60% of the equity of Anyidohu when its identifiable net assets were \( \text{GH¢180 million} \). Of the increase in net assets, \( \text{GH¢15 million} \) had been reported in profit or loss and \( \text{GH¢5 million} \) had been reported in other comprehensive income as a gain on an available for sale financial asset. The sale proceeds were \( \text{GH¢115 million} \) and the remaining equity interest was fair valued at \( \text{GH¢65 million} \). Afoko could still exert significant influence after the disposal of the interest.

**Required:**
Calculate the *consolidated gain or loss* arising on the disposal of the equity interest in Anyidohu Ltd and explain how the investment in Anyidohu Ltd is accounted for after the disposal of 60% of equity. (5 marks)

(Total: 20 marks)
QUESTION TWO

a) Zumah Ltd operates a defined benefit pension plan for its employees. At 1 April 2015 the fair value of the pension plan assets was GHS8,200,000 and the present value of the pension plan liabilities was GHS8,500,000. The Actuary estimated that, the service cost for the year to 31 March 2016 was GHS2,100,000. The pension plan paid GHS500,000 to retired members and Zumah Ltd paid GHS1,900,000 in contributions to the pension plan in the year to 31 March 2016. The Actuary estimated that, the relevant discount rate for the year to 31 March 2016 was 6%.

On 31 March 2016, Zumah Ltd announced improvements to the benefits offered by the pension plan to all of its members. The Actuary estimated that, the past service cost associated with these improvements was GHS2 million. At 31 March 2016 the fair value of the pension plan assets was GHS10,200,000 and the present value of the pension plan liabilities (including the past service costs) was GHS12,500,000.

Required:
In accordance with IAS 19 Employee Benefits:

i) Calculate the net actuarial gain or loss that will be included in Zumah Ltd’s other comprehensive income for the year ended 31 March 2016. (3 marks)

ii) Calculate the net pension asset or liability that will be included in Zumah Ltd’s statement of financial position as at 31 March 2016. (2 marks)

b) Earnings per share (EPS) is one of the most widely watched measures of company performance because of its significance. IAS 33 - Earnings per Share sets out the requirements for calculating and disclosing the basic earnings per share figure for quoted entities.

Required:
Discuss the significance of the earnings per share (EPS) figure to the analysis of company performance. (3 marks)

c) Alfa Limited issued a GHS5,000,000 18% convertible loan note at par on 1 July 2015 with interest payable annually in arrears. Three years later, on 30 June 2018, the loan note becomes convertible into equity shares on the basis of GHS100 of loan note for 50 equity shares or it may be redeemed at par in cash at the option of the loan note holder. The Financial Accountant of Alfa Limited has observed that the use of a convertible loan note was preferable to a non-convertible loan note as the latter would have required an interest rate of 24% in order to make it attractive to investors.

The present value of GHS1 receivable at the end of the year, based on discount rates of 18% and 24% can be taken as:

<table>
<thead>
<tr>
<th>Year</th>
<th>18%</th>
<th>24%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.847</td>
<td>0.806</td>
</tr>
<tr>
<td>2</td>
<td>0.718</td>
<td>0.650</td>
</tr>
<tr>
<td>3</td>
<td>0.609</td>
<td>0.524</td>
</tr>
</tbody>
</table>

Required:
Show the accounting treatments for the convertible loan note in Alfa Limited’s:

i) income statement for the years ended 30 June 2016, 2017 and 2018; and (3 marks)

(Note: Assume that the share option is taken at the end of June 30, 2018.)

(4 marks)

d) Explain with justification, whether each of the following could most likely be classified as a discontinued operation under *IFRS 5: Non-current Assets Held for Sale and Discontinued Operations* in this year's financial statements:

i) A reportable operating segment that met the definition of held for sale after the year end, but before the financial statements were authorised for issue.

(1 mark)

ii) A reportable operating segment that was closed down during the financial year. The assets of the segment were broken up and used in other divisions of the company.

(2 marks)

iii) A division of a business, classified as held for sale, that was correctly treated as a discontinued operation in last year's financial statements, but which has not been sold by this year-end due to the sale being referred to the National Insurance Commission, which regulates the Insurance industry. The commission is not expected to report its findings until 6 months after this year end.

(2 marks)

e) On 1 October 2016, Abudu Ltd decided to revalue its land for the first time. The land was originally purchased six years ago for GH¢65,000 and was revalued to its current market value of GH¢80,000 on 1 October 2016. The difference between Abudu Ltd’s Net assets (including revaluation of land) and the lower tax base at 30 September 2017 was GH¢27,000. The opening deferred tax liability at 1 October 2016 was GH¢2,600 and Abudu Ltd’s tax rate is 25%

**Required:**
Explain how to account for the above transaction in the financial statements of Abudu Ltd for the year to 30 September 2017.

(5 marks)

(Total: 25 marks)

---

**QUESTION THREE**

Bank of Ghana (BoG) earlier last year announced an increase in the minimum capital requirement for Micro Finance Institutions in the country from the current GH¢500,000 to GH¢2 million by June 2018. Capital Link, a Micro Finance Company has been affected by the increase in players in the Micro Finance Industry which has seen a reduction of its loan portfolio and an increase in loan default rate.

A statement of Financial Position recently prepared by Capital Link is as follows:

| **Statement of Financial Position as at 30th April, 2017** |
|---------------|---------------|
| **GH¢**       | **GH¢**       |
| Non-current assets |               |
| Goodwill      | 450,000       |
| Leasehold building (Carrying Amount) | 750,000       |
|               | **1,200,000** |

---
### Current assets
- Loan Portfolio: 825,000
- Investment in Treasury bills: 570,000

\[ \text{Total Current assets} = 1,395,000 \]

### Current liabilities
- Interest to depositors: 885,000
- Bank overdraft (secured on Leasehold property): 975,000

\[ \text{Total Current liabilities} = 1,860,000 \]

#### Net current liabilities
\[ (465,000) \]

\[ 735,000 \]

Financed by:
- Share capital: 600,000
- General reserves: 120,000
- Retained Earnings: 15,000

\[ 735,000 \]

### Additional information:
Depositors have the information that Capital Link is considering funding options to ensure the survival of the business. They are however not convinced that Management of Capital Link would be able to raise the required capital to meet the minimum requirement.

In a Stakeholders meeting, Management of Capital Link proposed two possible options for the company’s future.

#### Scheme 1 - Close Down Mission
Unity Capital Ltd has made a firm offer of GH¢600,000 for the company’s leasehold property. Total loan portfolio is conservatively valued at GH¢592,500 in a forced sale. Investments in Treasury bills amounts to GH¢465,000. Liquidation expenses are estimated at GH¢30,000 and interest to depositors is GH¢330,000.

#### Scheme 2 - Rescue Mission
Management of Capital Link propose to implement a scheme which includes a cheap loan of GH¢600,000 from a distress fund set up by an NGO, Business Rescuers. The following terms have been arranged:

GH¢375,000 would be reserved to pay for the loan from the NGO when the first installment falls due. The NGO has been asked to accept 20% debenture in exchange for the balance remaining due. The debenture would be repayable in four annual installments of GH¢150,000, commencing 28 February 2017, with the interest due for the preceeding year, paid on the same date.

**Assume that:**
- The current rate of interest on all borrowing is 14%
- The calculations are being made on 30th April, 2017 and either scheme could be put onto effect immediately.
• The present value of GH¢1 recoverable at the end of each year is:

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>14%</td>
<td>0.88</td>
<td>0.77</td>
<td>0.67</td>
<td>0.59</td>
</tr>
<tr>
<td>20%</td>
<td>0.83</td>
<td>0.69</td>
<td>0.58</td>
<td>0.48</td>
</tr>
</tbody>
</table>

**Required:**

a) By means of numerical analysis of the two schemes, evaluate how much the bank would recover from each scheme.  

(12 marks)

b) Discuss **TWO** advantages of each scheme.  

(3 marks)  

(Total: 15 marks)

**QUESTION FOUR**

a) It is often argued that historical cash flow is more useful in appraising a company than historical profit, particularly because cash flows are factual and do not involve the exercise of judgement.

**Required:**

Explain **FOUR** arguments against this view.  

(4 marks)

b) Fordland Ltd and Fiatland Ltd are two companies in the Garment Industry. The following are financial ratios computed by the Research Department of ICAG as part of analyzing companies’ performance industry by industry.

**Ratios of companies for the year ended 31 December 2017**

<table>
<thead>
<tr>
<th></th>
<th>Fordland Ltd</th>
<th>Fiatland Ltd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on capital employed</td>
<td>24.10%</td>
<td>30%</td>
</tr>
<tr>
<td>Net assets turnover</td>
<td>1.9 times</td>
<td>2.5 times</td>
</tr>
<tr>
<td>Gross profit margin</td>
<td>35%</td>
<td>20%</td>
</tr>
<tr>
<td>Net profit (before tax) margin</td>
<td>10.50%</td>
<td>38%</td>
</tr>
<tr>
<td>Current ratio</td>
<td>1.0:1</td>
<td>2.0:1</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>0.8:1</td>
<td>1:01</td>
</tr>
<tr>
<td>Inventory holding period</td>
<td>60 days</td>
<td>90 days</td>
</tr>
<tr>
<td>Receivables collection period</td>
<td>58 days</td>
<td>60 days</td>
</tr>
<tr>
<td>Payables payment period</td>
<td>50 days</td>
<td>50 days</td>
</tr>
<tr>
<td>Debt to equity</td>
<td>50%</td>
<td>30%</td>
</tr>
<tr>
<td>Dividend yield</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Dividend cover</td>
<td>2 times</td>
<td>1.5 times</td>
</tr>
</tbody>
</table>

**Required:**

Explain **THREE** problems that are inherent when ratios are used to compare the performance of two companies even in the same industry.  

(3 marks)

c) Write a report analyzing and comparing the financial performance of Fordland Ltd and Fiatland Ltd. The report should cover the *Operating Performance, Liquidity, Gearing and Investment Ratio.*  

(8 marks)

(Total: 15 marks)
QUESTION FIVE

a) *'Integrated reporting' advances the proposition that sustainability reporting and financial reporting are inherently linked and thus would benefit from merging.'*

   Bob Massie, co-founder of the Global Reporting Initiative

   **Required:**
   Explain how *integrated reporting* merges *sustainability reporting* and *financial reporting.*

   (10 marks)

b) The Finance Manager of Integrity Sports, a Takoradi-based manufacturer and retailer of sporting goods, prepares quarterly accounts for his boss, the Finance Director. At the end of the first quarter of 2017 the Finance Manager identified that net assets were below the level required by a bank covenant that the company had entered into with Unique Bank. He therefore alerted the Finance Director to this. The following week the Finance Manager identified that amended quarterly accounts had been sent to the bank by the Finance Director, in which the inventory figure had been increased. The same issue arose at the end of the second quarter of 2017, and again the Finance Manager noted that the accounts sent to the bank included a different inventory figure from those that he had prepared the previous week. The Finance Manager is so sure that cut-off procedures and valuation were correctly adhered to and this was done under his supervision. He therefore ask the Finance Director why the figures have changed and his response was as follows:

   *'The adjustment is just for some goods held at one of our customer's retail premises – we missed it out from the stock count. Don't worry I've got it all in hand!''*

   The Finance Manager then reviewed the contract with the customer in question and noted that it clearly states that the customer will be supplied with goods as ordered and has no right of return in the case of unsold goods. He also noted that Integrity Sports has sold goods to this customer for a number of years on the same terms, and no adjustment has ever been made before. Both the Finance Manager and Finance Director are Chartered Accountants.

   **Required:**
   i) Explain why the *inventory adjustment* suggests an *ethical issue.*

   (6 marks)

   ii) Explain **FOUR** course of action that the Finance Manager should take in respect of the issue that he has identified.

   (4 marks)

c) In May 2008, the International Accounting Standards Board (IASB) issued the discussion paper Preliminary Views on an improved *Conceptual Framework for Financial Reporting - The Reporting Entity (DP).* The objective of the Reporting Entity phase, is to determine what constitutes a reporting entity for the purposes of financial reporting.

   **Required:**
   Identify and explain **TWO different approaches** to determining what a *'reporting entity' should be for financial reporting purposes.*

   (5 marks)

   (Total: 25 marks)
SOLUTION TO QUESTIONS

QUESTION ONE

Sawaba Group
Consolidated Statement of Profit or Loss and other comprehensive Income for year ended 31 December 2017

GH¢’000

Revenue (80,850 + (W3) 51,800) 132,650
Cost of sales (71,000 + (W3) 41,360) (112,360)
Gross profit 20,290
Distribution and administrative expenses (8,800 + (W3) 3,120) (11,920)
Profit before tax 8,370
Income tax expense (600 + (W3) 2,520) (3,120)
Profit for the year 5,250
Other comprehensive income:
Items that may be reclassified to profit or loss:
Exchange differences on translating foreign operations (W7) 640.6
Total Comprehensive Income for the year 5,890.6

Profit attributable to:
Owners of the parent (5,250 – 1,200) 4,050
Non-controlling interests ((W3) 4,800 x 25%) 1,200
5,250

Total comprehensive income attributable to:
Owners of the parent (5,890.6 – 1,360.2) 4,530.4
Non-controlling interests [((W3) 4,800 + (W7) 640.6) X 25%] 1,360.2
5,890.6

Statement of Changes in Equity for the year ended 31 December 2017 (extract)

Income Surplus
GH¢’000

Balance at 1 January 2017 (W5) 2,903.6
Dividends (1,400)
Total comprehensive income for the year (per SPLOCI) 4,530.4
Balance at 31 December 2017 (W5) 6,034.0
## Sawaba Group
### Consolidated Statement of Financial Position as at 31 December 2017

<table>
<thead>
<tr>
<th></th>
<th>GH¢'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment (5,740 + (W2) 2,700)</td>
<td>8,440.0</td>
</tr>
<tr>
<td>Goodwill (W4)</td>
<td>366.6</td>
</tr>
<tr>
<td></td>
<td>8,806.6</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
</tr>
<tr>
<td>Inventories (3,980+ (W2) 4,620)</td>
<td>8,600.0</td>
</tr>
<tr>
<td>Trade receivables (3,260 + (W2) 2,540)</td>
<td>5,800.0</td>
</tr>
<tr>
<td>Cash at bank and in hand (480 + (W2) 1,120)</td>
<td>1,600.0</td>
</tr>
<tr>
<td></td>
<td>16,000.0</td>
</tr>
<tr>
<td></td>
<td><strong>24,806.6</strong></td>
</tr>
</tbody>
</table>

Equity attributable to owners of the parent

|                      |         |
| Stated capital       | 236.0   |
| Capital surplus      | 400.0   |
| Income surplus (W5)  | 5,634.0 |
|                      | 6,270.0 |

|                      |         |
| Non-controlling interests (W6) | 2,216.6 |
|                                  | 8,486.6 |

### Non-current liabilities

|                      |         |
| Loans                | 3,840   |

### Current liabilities

|                      |         |
| Trade payables (10,060 + (W2) 2,420) | 12,480  |
|                      | **24,806.6** |

### Workings

#### 1 Group structure

|                      |         |
| Sawaba               | 4,044,000/5,392,000 |
|                      | 75%     |
| NCI                  | 1,348,000/5,392,000 |
|                      | 25%     |

Enugu issued its shares @ ₦0.5.

₦2,696,000 issued at ₦0.5.

₦1 = 5,392,000 shares

#### 2 Translation of Enugu – statement of financial position

<table>
<thead>
<tr>
<th></th>
<th>₦000</th>
<th>Rate</th>
<th>GH¢'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>9,720</td>
<td>3.6</td>
<td>2,700</td>
</tr>
<tr>
<td>Inventories</td>
<td>16,632</td>
<td>3.6</td>
<td>4,620</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>9,144</td>
<td>3.6</td>
<td>2,540</td>
</tr>
<tr>
<td>Cash</td>
<td>4,032</td>
<td>3.6</td>
<td>1,120</td>
</tr>
<tr>
<td></td>
<td><strong>39,528</strong></td>
<td></td>
<td><strong>10,980</strong></td>
</tr>
</tbody>
</table>
Stated capital  2,696  4.4  612.7

Income surplus
- pre-acquisition  5,752  4.4  1,307.3
- post-acquisition (28,120 - 5,752)  22,368  (balance)  6,640

30,816  8,560

Trade payables  8,712  3.6  2,420

39,528  10,980

3 Translation of Enugu - statement of profit or loss and other comprehensive income

<table>
<thead>
<tr>
<th></th>
<th>₦'000</th>
<th>Rate</th>
<th>GH¢'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>194,250</td>
<td>3.75</td>
<td>51,800</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(155,100)</td>
<td>3.75</td>
<td>(41,360)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>39,150</td>
<td>3.75</td>
<td>10,440</td>
</tr>
<tr>
<td>Distribution and administrative expenses</td>
<td>(11,700)</td>
<td>3.75</td>
<td>(3,120)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>27,450</td>
<td>3.75</td>
<td>7,320</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(9,450)</td>
<td>3.75</td>
<td>(2,520)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>18,000</td>
<td>3.75</td>
<td>4,800</td>
</tr>
</tbody>
</table>

4 Goodwill

<table>
<thead>
<tr>
<th></th>
<th>₦'000</th>
<th>₦'000</th>
<th>Rate</th>
<th>GH¢'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consideration transferred (1,680 X 4.4)</td>
<td>7,392</td>
<td></td>
<td>1,680</td>
<td></td>
</tr>
<tr>
<td>Non-controlling interests (at FV: 540 X 4.4)</td>
<td>2,376</td>
<td></td>
<td>540</td>
<td></td>
</tr>
<tr>
<td>Less share of net assets at acquisition: 4.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stated capital</td>
<td>2,696</td>
<td>613</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income surplus</td>
<td>5,752</td>
<td>1,307</td>
<td>(1,920)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>₦'000</th>
<th>₦'000</th>
<th>Rate</th>
<th>GH¢'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill at acquisition</td>
<td>1,320</td>
<td></td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>Exchange gain 2015 - 2016</td>
<td>-</td>
<td>ß</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Goodwill at 31 December 2016</td>
<td>1,320</td>
<td>4.0</td>
<td>330</td>
<td></td>
</tr>
<tr>
<td>Exchange gain 2017</td>
<td>-</td>
<td>ß</td>
<td>36.6</td>
<td></td>
</tr>
<tr>
<td>Goodwill at year end</td>
<td>1,320</td>
<td>3.6</td>
<td>366.6</td>
<td></td>
</tr>
</tbody>
</table>

5 Proof of income surplus

(i) At 31 December 2017

<table>
<thead>
<tr>
<th></th>
<th>GH¢'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sawaba</td>
<td>604</td>
</tr>
<tr>
<td>Add group share of post-acquisition income surplus of Enugu ((W2) 6,640 X 75%)</td>
<td>4,980</td>
</tr>
<tr>
<td>Group share of impairment losses to date</td>
<td>(0)</td>
</tr>
<tr>
<td>Group share of exchange differences on goodwill ((W4) 30 + 36.6) X 75%)</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>5,634</td>
</tr>
</tbody>
</table>
(ii) At 31 December 2016
Sawaba (1,004 – (1,890 – 1,400))

Add group share of post-acquisition income surplus of Enugu *

\[ ((\₦30,816 – 18,000 + 7,488)/4) - \\
(\₦ (W2) (2,696 + 5,752)/4.4) \times 75\% \]

Group share of impairment losses to 31.12.2016

Group share of exchange differences on goodwill ((W4) 30 x 75%)

* Note. This is calculated by comparing the net assets at the two dates.

6 Non-controlling interests

NCI at acquisition (W4)

Add NCI share of post-acquisition income surplus of Enugu

NCI share of impairment losses to date

NCI share of exchange differences on goodwill ((W4) 30 + 36.6) X 25%

7 Exchange differences arising during the year

On translation of net assets of Enugu:

Closing NA at CR (W2)

Opening NA @ OR \[ [(30,816 – 18,000 + 7,488)/4.0] \]

Less retained profit as translated ((W3) 4,800 – 7,488/3.90)

On goodwill (W4)

(15 marks evenly spread using ticks)

b) Afoko Ltd

Fair value of consideration received

Fair value of equity interest retained

Less share of net assets and goodwill at date of disposal

Net assets

Goodwill (195m – 160m)

Loss on disposal

(3 marks)
Commentary/Justification
After the disposal of 60% of equity, Afoko Ltd has significant influence over Anyidohu Ltd. Therefore there is an associate relationship and Afoko Ltd should apply equity accounting for Anyidohu. Under equity accounting an investment is held at cost plus group share of retained total comprehensive income made after associate status is established, less any impairment losses. In a case such as this, where a disposal of equity shares has resulted in control being lost but significant influence being retained, deemed cost is the fair value of the retained investment on the disposal date. Therefore the investment in Anyidohu as an associate is initially measured at fair value of GH¢65m.

The group share of total comprehensive income subsequently earned by Anyidohu is recognised in the group statement of profit or loss and other comprehensive income and increases the carrying amount of the investment.  

(2 marks)

(Total: 20 marks)

EXAMINER’S COMMENTS
Question 1 was in two parts, a) and b):
Question 1a) required candidates to prepare consolidated statements of profit or loss and other comprehensive income, an extract from changes in equity for income surplus, and the consolidated statement of financial position for a group. The question involved a foreign subsidiary. It was generally well answered by candidates who had full grips of the principles of consolidation; they scored highly. However, a number of candidates scored poorly. Some of the difficulties encountered were as follows:

• Selection and application of relevant exchange rates posed challenges. Candidates struggled to translate the foreign currency to the functional and presentation currency (that is the Ghana Cedi). There were several instances where wrong exchange rates were selected. Also, instead of dividing the relevant foreign currency values with the exchange rates, some candidates multiplied.

• Many candidates had challenges in computing the consolidation goodwill, non-controlling interest in the consolidated statement of profit or loss, non-controlling interest in the consolidated statement of financial position and total comprehensive income attributed to owners of the parent.

• The extract from the statement of changes in equity for income surplus could not be handled satisfactorily by candidates.

• Question 1b) tested candidates on calculation of consolidated gain or loss arising on the disposal of 60% equity interest in a company and how the remaining investment should be accounted for after the disposal. Many of the candidates who attempted it got the calculation correct. However, only few of them understood that the remaining 40% should be accounted for using the Equity Method of accounting. Majority of candidates proposed a variety of treatments that were not correct.
QUESTION TWO

a) Pension plan of Zumah Ltd
i) Actuarial gains and losses:

<table>
<thead>
<tr>
<th></th>
<th>FV of plan assets GH¢000</th>
<th>PV of plan liabilities GH¢000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>8,200</td>
<td>8,500</td>
</tr>
<tr>
<td>Service cost</td>
<td></td>
<td>2,100</td>
</tr>
<tr>
<td>Interest cost (6% x opening balances)</td>
<td>492</td>
<td>510</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(500)</td>
<td>(500)</td>
</tr>
<tr>
<td>Contributions</td>
<td>1,900</td>
<td></td>
</tr>
<tr>
<td>Past service cost</td>
<td></td>
<td>2,000</td>
</tr>
<tr>
<td></td>
<td>10,092</td>
<td>12,610</td>
</tr>
</tbody>
</table>

**Actuarial gain on plan assets**

108

**Actuarial gain on plan liabilities**

110

**Closing balance**

10,200

12,500

The net actuarial gain in OCI is GH¢218,000 for the year. (3 marks)

ii) Statement of financial position:

<table>
<thead>
<tr>
<th></th>
<th>GH¢000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of pension plan liabilities at 31 March 2016</td>
<td>(12,500)</td>
</tr>
<tr>
<td>Fair value of pension plan assets at 31 March 2016</td>
<td>10,200</td>
</tr>
<tr>
<td>Net pension liability</td>
<td>(2,300)</td>
</tr>
</tbody>
</table>

(2 marks)

b) Significance of Earnings per Share (EPS)

- EPS gives a way to measure a company’s profits relative to the number of shares in issue. It is argued that as owners hold equity shares, it is more relevant to them to know how much profit each share has earned than to know the overall profit figure.

- EPS feeds into the price / earnings ratio, one of the most important stock market measures of value. This gives an estimate of the number of years it would take for an investment in an equity share to return itself in earnings terms, assuming current performance continues into the future.

- It is essential that such an important measure of performance have clear guidelines regarding its calculation. IAS 33 Earnings per Share gives us a standardised method of calculating both earnings, and the number of shares.

- Many investors feel that other measures are more appropriate, and that the IAS 33 definition of EPS is too conservative. IAS 33 allows alternative measures of EPS to be published, as long as the IAS 33 figure gets equal or greater prominence.

- There is a danger in relying on a single measure of performance, as no single measure can encapsulate all aspects of an entity’s performance.
• Also, there is a danger that EPS may be seen by unsophisticated investors as a definite exact number, when in reality it is subject to all the accounting estimates and judgments that are necessary in preparing a set of financial statements.
• Despite these fears, it is generally agreed that IAS 33 gives a very fair method of calculating EPS, and that the consistency it offers is of value to the investor and analyst.

(Any 3 points for 3 marks)

c) This question relates to a compound financial instrument (convertible debt). The treatment is in accordance with IFRS 9 Financial instruments.

(i) Financial statement extract

Income Statements for the year ended 30 June

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance costs</td>
<td>1,056,480</td>
<td>1,094,035.2</td>
<td>1,140,603.65</td>
</tr>
</tbody>
</table>

Statement of Financial Position as at 30 June 2016

Non-current liabilities
18% convertible loan note (4,402,000 + 1,056,480 – 900,000) 4,558,480

Equity (Option to convert) [5,000,000 – 4,402,000] 598,000

Statement of Financial Position as at 30 June 2017

Non-current liabilities
18% convertible loan note (4,558,480 + 1,094,035.2 – 900,000) 4,752,515.2

Equity (Option to convert) [5,000,000 – 4,402,000] 598,000

Statement of Financial Position as at 30 June 2018 (Assuming the share option is taken)

Non-current liabilities
18% convertible loan note -

Equity (Option to convert) [5,000,000 – 4,402,000] 598,000
Equity 5,000,000
Workings
Determination of debt and equity components of compound financial instrument

<table>
<thead>
<tr>
<th>Item</th>
<th>Cash flows</th>
<th>Discount factor @ 24%</th>
<th>Present value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GH¢’000</td>
<td>GH¢’000</td>
<td></td>
</tr>
<tr>
<td>Year 1 interest</td>
<td>18% x 5,000 = 900</td>
<td>0.806</td>
<td>725.4</td>
</tr>
<tr>
<td>Year 2 interest</td>
<td>18% x 5,000 = 900</td>
<td>0.650</td>
<td>585</td>
</tr>
<tr>
<td>Year 3 interest</td>
<td>18% x 5,000 = 900</td>
<td>0.524</td>
<td>471.6</td>
</tr>
<tr>
<td>Year 3 Principal</td>
<td>5,000</td>
<td>0.524</td>
<td>2,620</td>
</tr>
<tr>
<td>Total value of debt component (carrying value)</td>
<td></td>
<td></td>
<td>4,402</td>
</tr>
<tr>
<td>Proceeds of the issue</td>
<td></td>
<td></td>
<td>5,000</td>
</tr>
<tr>
<td>Equity component (Residual)</td>
<td></td>
<td></td>
<td>598</td>
</tr>
</tbody>
</table>

Note: The finance cost in the income statement for 2013, for instance, is computed as GH¢4,402,000 x 24% = GH¢1,056,480. Meanwhile, the interest to be paid is GH¢5,000,000 x 18% = GH¢900,000. This requires an accrual of GH¢156,480 (that is, GH¢1,056,480 – 900,000). This accrual should be added to the carrying value of the debt to arrive at the amortised cost at the end of year 2013.

Loan amortised cost schedule

<table>
<thead>
<tr>
<th>Year</th>
<th>Liability @ start</th>
<th>Finance charge @ 24%</th>
<th>Interest paid @ 18%/Principal paid or share option taken</th>
<th>Liability @ end</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>4,402,000</td>
<td>1,056,480</td>
<td>(900,000)</td>
<td>4,558,480</td>
</tr>
<tr>
<td>2</td>
<td>4,558,480</td>
<td>1,094,035.2</td>
<td>(900,000)</td>
<td>4,752,515.2</td>
</tr>
<tr>
<td>3</td>
<td>4,752,515.2</td>
<td>1,140,603.65</td>
<td>(900,000)</td>
<td>4,993,118.85</td>
</tr>
<tr>
<td>4</td>
<td>4,993,118.85*</td>
<td>-</td>
<td>(5,000,000)</td>
<td>-</td>
</tr>
</tbody>
</table>

* Difference due to rounding off

(7 marks evenly spread using ticks)

d) i) Classification as held for sale is a non-adjusting event after the reporting period (IAS 10 para 22(c)). Therefore the definition of a discontinued operation is not met as the assets are neither discontinued in the period nor classified as held for sale at the year end. (1 mark)

ii) A reportable operating segment closed down during the year is likely to meet the definition of a discontinued operation because it represents a major part of the entity's business and it was disposed of during the entity's accounting period. (2 marks)
For an operation not yet sold or abandoned to meet the definition of a discontinued operation, it must meet the IFRS 5 held for sale criteria. All of these criteria were met at the previous year end, however at the current year end the operation was not sold within 12 months of classification and the period is expected to be extended well past this. However, where the period is extended by an event beyond the entity's control such as this IFRS 5 Appendix B permits classification as held for sale (and therefore treatment as a discontinued operation) to continue provided the other criteria are still met, which appears to be the case here. (2 marks)

e)  
- Deferred tax liability c/d GH¢27,000 of which 25% =GH¢6,750 of which amount relating to revaluation surplus on land = (80,000-65,000)x 25% = 3,750.

- Increase in deferred tax liability will be recorded =GH¢6,750-GH¢2,600 =GH¢4,150 OF WHICH GH¢3,750 should be charged to OCI and the remainder charged to profit or loss account. (3 marks)

**Journal Entry:**

<table>
<thead>
<tr>
<th>GH¢</th>
<th>GH¢</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr income tax expense (SPL)</td>
<td>400</td>
</tr>
<tr>
<td>Dr Income tax on OCI (SOCl)</td>
<td>3,750</td>
</tr>
<tr>
<td>Cr deferred tax liability (SFP)</td>
<td>4,150</td>
</tr>
</tbody>
</table>

(2 marks)

(Total: 25 marks)

EXAMINER’S COMMENTS

Question 2 was on selected accounting standards. It was generally not well answered.

Question 2 was in five (5) parts.

- Part a) tested calculation of net actuarial gain or loss and net pension asset or liability in accordance with IAS 19 Employee Benefits. Not many candidates were able to perform the calculations satisfactorily.
- Part b) asked candidates to discuss the significance of the earnings per share (EPS) figure to the analysis of company performance. Average answers were generally produced by candidates.
- Part c) examined accounting treatments for convertible loan in Alfa Limited’s income statement and statement of financial position. This question relates to a compound financial instrument (convertible debt). The treatment should be in accordance with IFRS 9 Financial Instruments. Many candidates had difficulty in determining the debt and equity components of the compound financial instrument. Consequently, they got the finance costs, the equity and the non-current liabilities wrong.
• Part d) asked candidates to explain with justification, whether each of given situations could most likely be classified as a discontinued operation under IFRS 5: Non-current Assets Held for Sale and Discontinued Operations in this year’s financial statements. Many candidates wrote general knowledge on the IFRS instead of responding to the specific questions.
• Part e) asked candidates to explain how to account for a revaluation of a piece of land and deferred tax arising there from. Many candidates computed the revaluation alright. However, they had difficulty in computing and presenting the relevant income tax figures for the statement of profit or loss and statement of comprehensive income and deferred tax liability for the statement of financial position.

**QUESTION THREE**

**Scheme 1**

**Immediate liquidation**

<table>
<thead>
<tr>
<th></th>
<th>GH¢000</th>
<th>GH¢000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales proceeds: Leasehold</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Less: Bank overdraft – secured to the extent of</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Sales proceeds: Loan Portfolio</td>
<td>592.50</td>
<td></td>
</tr>
<tr>
<td>Investments in T bills</td>
<td>465</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1057.5</td>
</tr>
<tr>
<td>Less: Liquidation expenses</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Interest to depositors</td>
<td>330</td>
<td>(360)</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>697.5</td>
</tr>
<tr>
<td>Unsecured creditors: Bank (975,000 – 600,000)</td>
<td>375</td>
<td></td>
</tr>
<tr>
<td>Other (885,000 – 330,000)</td>
<td>555</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>930</td>
</tr>
</tbody>
</table>

Unsecured creditors get for each GH¢ 1 owed:  
GH¢1 × (697.5/930) = GH¢ 0.75

Bank therefore gets: Secured  
375,000 × 75p  
281,250  
Unsecured 375,000 × 75p  
881,250

**Scheme 2 Rescue operation:**

Received:

<table>
<thead>
<tr>
<th>Amount received immediately</th>
<th>375,000</th>
</tr>
</thead>
</table>

Amount received at the end of each year;

1  150,000 + (600,000 × 20%) = 270,000 × 0.88  
237,600
2  150,000 + (450,000 × 20%) = 240,000 × 0.77  
184,800
3 \[150,000 + (300,000 \times 20\%) = 210,000 \times 0.67\] 140,700
4 \[150,000 + (150,000 \times 20\%) = 180,000 \times 0.59\] 106,200
\[\text{Total: } 1,044,300\]

(12 marks evenly spread by way of ticks)

b) Scheme 1
i. The advantage of immediate liquidation is that the cash flows can be estimated with a reasonable amount of accuracy, particularly as a firm offer has been received for the leasehold buildings.
ii. On the face of it the valuations of the loan portfolio do not appear excessive, though the possibility of them realizing as much as forecast needs to be considered.
iii. The bank suffers a material loss on its investment, but nevertheless manages to recover 90% of the amount owing.

(Any 2 points for 1.5 marks)

Scheme 2
i. The advantage of this option is that the bank retains a customer, and avoids bad publicity possibly associated with the closure of a local firm.
ii. The computed financial advantage of this option is also a significant factor. However, there must be considerable doubt concerning the achievement of these estimates. Is there any evidence that the recent trading pattern has been reversed?
iii. The nature of the arrangement with the Cheap Finance Company Ltd also needs to be explored. If the bank is being offered 20% on its investment, the finance company is probably being offered something higher. Also, what is the order of priority on repayment between the planned loans from the finance company and the bank?
iv. Can the company really expect to generate the cash flows necessary to service and finance repayment of amounts due to both financial institutions?
v. Finally, what is the financial commitment of the directors in terms of further cash investment or offering assets as security?

(Any 2 points for 1.5 marks)

(Total: 15 marks)

EXAMINER’S COMMENTS
Many candidates did not attempt this question. The question was on a re-organisation of a Micro Finance Company.
Question 3 was in two (2) parts.
• Part a) provided two possible options (schemes) for the Company’s future. Candidates were required, by means of numerical analysis of the two schemes, to evaluate how much the bank would recover from each scheme. (The bank had provided the company with an overdraft facility secured on the company’s Leasehold property). This question was the least well answered on the examination paper. The few marks that were earned from this question came
from evaluation of Scheme 1 with virtually no mark earned from that of Scheme 2.

• Part b) asked candidates to discuss two advantages of each scheme. This part of the question was poorly answered. Most candidates discussed advantages of re-organization in general without relating to the specific circumstances of the entity in question.

QUESTION FOUR

a) Although it is true that cash flows are factual and not affected by accounting policies, there are a number of areas in which it could be argued that profit is a better measure of performance:

• Profit is accrual based. This has the following implications: – Management can manipulate cash flows to appear better than they are by delaying payments and bringing forward receipts; this is irrelevant to profits. – Certain items relating to the future are recognised in profit but not in cash flows. For example a provision for a liability is recognised in profit or loss so providing indicators of future cash flows.

• Non-cash items may be represented in profit or loss, but are obviously not represented in the statement of cash flows. An example is share-based payments. Although these do not involve the payment of cash, they are still relevant to performance appraisal.

• Due to the way in which cash flows are disclosed, normalisation for exceptional and one-off items is difficult to achieve. In the statement of profit or loss these items are disclosed and so can be excluded in order to assess sustainable performance more accurately.

• Management can time the purchase and sale of non-current assets in order to improve cash flow performance in a given year. The equivalent expense is depreciation; as this is recognised over the life of the underlying asset, there is limited opportunity to take a similar short-term approach to improving performance.

(Any 4 points for 4 marks)

b) Of particular concern with this method of using ratios is:

• Many large firms operate different divisions in different industries. For these companies it is difficult to find a meaningful set of industry-average ratios.

• Inflation may have badly distorted a company’s balance sheet. In this case, profits will also be affected. Thus a ratio analysis of one company over time or a comparative analysis of companies of different ages must be interpreted with judgment.
• Seasonal factors can also distort ratio analysis. Understanding seasonal factors that affect a business can reduce the chance of misinterpretation. For example, a retailer's inventory may be high in the summer in preparation for the back-to-school season. As a result, the company's accounts payable will be high and its ROA low.

• Different accounting policies and practices can distort comparisons even within the same company (leasing versus buying equipment, LIFO versus FIFO, etc.).

• It is difficult to generalize about whether a ratio is good or not. A high cash ratio in a historically classified growth company may be interpreted as a good sign, but could also be seen as a sign that the company is no longer a growth company and should command lower valuations.

• A company may have some good and some bad ratios, making it difficult to tell if it's a good or weak company.

(Any 3 points for 3 marks)

c)

Report Format

From:
To: Research Department of ICAG
Date: 8 May 2018
Subject: Analysis of Fordland Ltd & Fiatland Ltd

Introduction
Operating Performance

• Operating performance ratios are tools which measure the function of certain core operations for an organization or business. Particularly, these ratios reveal information about how efficiently that organization is using resources to generate sales and cash. A company with strong performance ratios is able to utilize a minimum resource pool to generate high levels of sales, as well as a significant cash inflow.

• Using the Gross Profit Margin, Fordland is doing better than Fiatland. This means that Fordland is able to control its cost of production and at the same time maximise its revenue or sales.

• Using the Net profit margin Fiatland (38%) is doing extremely well compared to Fordland (10.50%). This means that Fiatland is able to control its operating expenses compared to Fordland. Fiatland is more efficient in controlling its expenses.

• Fiatland's ROCE of 30% is higher than Fordland's 24.10% ROCE. This means that Fiatland does a better job of deploying its capital than Fordland. A higher ROCE indicates more efficient use of capital. ROCE should be higher than the company’s capital cost; otherwise it indicates that the company is not employing its capital effectively and is not generating shareholder value.

(4 points @ 0.5=2 marks)
Liquidity

- Liquidity ratios analyse the ability of a company to pay off both its current liabilities as they become due as well as their long-term liabilities as they become current. In other words, these ratios show the cash levels of a company and the ability to turn other assets into cash to pay off liabilities and other current obligations.

- **The current ratio** is mainly used to give an idea of a company’s ability to pay back its liabilities (debt and accounts payable) with its assets (cash, marketable securities, inventory, and accounts receivable). As such, current ratio can be used to make a rough estimate of a company’s financial health. For every GH¢1 of current debt, Fordland has GH¢1 available to pay for the debt. Fiatland has GH¢2 in current assets for each GH¢1 of current debt. Fiatland has more than enough to cover its current liabilities if they come due.

- **The quick ratio** measures the cedi amount of liquid assets available for each GH¢1 of current liabilities. Thus, a quick ratio of 0.8:1 for Fordland means that a company has GH¢0.80 of liquid assets available to cover each GH¢1 of current liabilities and Fiatland has GH¢1.0 of liquid assets available to cover each GH¢1 of current liabilities.

Gearing

- Gearing ratio refers to the fundamental analysis ratio of a company's level of long-term debt compared to its equity capital/capital employed. The point when processing what amount of debt an organization is undertaking as contrasted with its equity, the debt to equity ratio is generally utilized.

- Generally, a lower gearing ratio means greater financial stability. However, not all debt is bad debt. Loans and other fixed interest liabilities are a way for companies to leverage their value to increase profits for shareholders, so the optimal gearing ratio is largely determined by the individual company relative to others in its sector. Therefore Fordland with a debt to equity ratio of 50% is riskier than Fiatland with 30%.

Investment Ratio

- Dividend yield is a way to measure how much cash flow you are getting for each cedi invested in an equity position. In other words, it measures how much cedi you are getting from dividends. In the absence of any capital gains, the dividend yield is effectively the return on investment for a stock. Assuming all other factors are equivalent, then, an investor looking to use his or her portfolio to supplement his or her income would likely prefer Fordland's stock over that of Fiatland, as it has 3% the dividend yield compared to 2% of Fiatland.

- Dividend cover is the ratio of company's net income over the dividend paid to shareholders, calculated as earnings per share divided by the dividend per share.
It helps indicate how sustainable a dividend is. Dividend Cover of less than 1.5 may indicate a danger of a dividend cut while more than 2 is viewed as healthy. Investors will prefer Fordland with a dividend cover of 2 as compared to Fiatland with a dividend cover of 1.5

Signature

(Total: 15 marks)

EXAMINER’S COMMENTS

Question 4 was in three parts, a), b) and c):

- Part (a) required candidates to explain four arguments against the view that historical cash flow is more useful in appraising a company than historical profit, particularly because cash flows are factual and do not involve the exercise of judgement. This part of the question was poorly answered. Instead of arguing against the view that ‘historical cash flow is more useful in appraising a company than historical profit’ candidates rather concentrated on historical profit without indicating why it is more useful than historical cash flow.

- Part (b) required candidates to explain three problems that are inherent when ratios are used to compare the performance of two companies even in the same industry. Candidates did not understand the requirement of this question; they provided general limitations of ratio analysis rather than addressing the requirement of the question.

- Part (c) required candidates to prepare a report analysing and comparing the financial performance of two companies. The report should cover the Operating Performance, Liquidity, Gearing and Investment Ratio. This part was the best answered among all the parts in question 4. However, candidates wrote lengthy answers without paying attention to mark allocation. Some candidates recopied the list of the ratios of the two companies which has been given by the examiner before answering the question. Strangely, some candidates introduced a subheading “Efficiency” and wrote about it. It was not part of the requirement.
QUESTION FIVE

(a) Integrated reporting: merging sustainability and financial reporting

The value created by an organisational strategy that achieves financial results and creates sustainable value cannot be expressed by individual financial and sustainability reports with no obvious links between the profit figure and sustainability impacts. Integrated reporting therefore involves taking a more cohesive and efficient approach to corporate reporting with the aim of improving the quality of information available.

An integrated report is a single annual report, however unlike a traditional annual report, it focuses on government, social and environmental as well as financial issues. An integrated report is prepared with all stakeholders in mind, rather than simply shareholders; it requires the co-operation of departments throughout an organisation rather than the individual input of some; it deals with the future as well as the past. The Framework provides guidance on the principles and contents that should be incorporated into financial reporting.

It explains that there are three main aspects to an integrated report, being capitals, guiding principles and content elements.

- Capitals are the inputs to an organisation that are used to create value. These include financial capital as well as non-financial capital such as human, social and natural capitals.

- Guiding principles explain how an integrated report should be prepared – these include principles that underlie financial reports such as materiality and reliability, but also principles more relevant to sustainability such as stakeholder relationships and future orientation.

- Content elements of an integrated report again include both financial and sustainability elements. They are: organisational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, outlook and basis of presentation.

(10 marks)

(b) Ethical issue

- In accordance with IAS 18, goods held at a customer's premises remain the inventory of the selling entity if the risks and rewards of ownership have not transferred to the customer. In this case, the customer has no right of return of unsold goods. This would suggest that the risks and rewards of ownership have transferred to the customer and that Integrity Sport should have recognised a sale when the goods were delivered to the customer. The fact that no such adjustment has taken place previously, even though sales have taken place on the same terms would appear to support this assertion. If this is the case, the Finance Director is incorrect to increase closing inventory by the goods held at the customer's premises.

- It would appear that the Finance Director might be trying to manipulate the net assets figure in order to meet bank covenants. If these were breached, the bank could take action and Integrity Sport's funding package could be withdrawn and
the company could be put out of business. In this case shareholders, employees and the public would all be affected. The fact that the Finance Director may be trying to protect these parties does not, however, make her actions acceptable. Adjustment to the closing inventory figure will also result in an overstated profit figure as cost of sales is reduced by the adjustment. If Integrity Sport gives its employees profit related bonuses, this may also result in a personal gain being made by the Finance Director.

(6 marks)

ii) Finance Manager’s actions

The Finance Manager is a qualified accountant and as such is bound by the IFAC’s Code of Ethics. He cannot retain his integrity by ignoring this issue. He should also display professional behaviour by pursuing this issue. As the Finance Manager has identified a possible ethical issue, he should seek a resolution. An appropriate course of action would be to:

• Gather all relevant facts. There is a possibility that the Finance Director is correct in putting through an inventory adjustment, however the Finance Manager needs evidence to confirm this. Equally there is a possibility that pressure has been exerted on the Finance Director to put the adjustment through.
• If the Finance Manager is uncomfortable speaking to the Finance Director again, it may be appropriate to raise the matter with another Board member, explaining the issue and correct accounting treatment.
• If this is unsuccessful, the company may have a formal mechanism for reporting this type of issue.
• If the Finance Manager is not successful in pursuing the matter internally, he may consider approaching the company’s external auditors.
• A final consideration may be for the Finance Manager to resign his position and make his suspicions public to the bank and shareholders.

(Any 4 points for 4 marks)

c) Approaches in determining a reporting entity

• Legal form
  This is the most obvious way of determining a reporting entity, and, with the exception of consolidated financial statements, is the method generally used for reporting purposes. Sometimes however the substance of what constitutes an 'entity' may be different from its legal form. This is generally dealt with by applying the definition of control in IFRS 10.

• Ownership
  A reporting entity could be defined as all the property owned by a particular investor regardless of how that is distributed over legal entities. For example, an investor may have 3 different unrelated entities and an investment in, say, a joint venture. While not a group, combining these ownership interests together can be provide useful information for the investor.
• Management
A management approach brings together all assets managed by the same party, again regardless of how distributed over legal entities. This can be useful from an investor's point of view in order to assess how effective management of resources by the same party is. This is the approach used in IFRS 8 for segment reporting, for example.

(Marks awarded for other logical approaches as well, e.g. 'control' approach or 'end user' approach)

(2 points for 2.5 marks for each point well explained)

(Total: 25 marks)

EXAMINER’S COMMENTS
Question 5 was in three parts.
Many candidates scored very good marks under question 5.
• Part a) asked candidates to explain how integrated reporting merges sustainability reporting and financial reporting. Most candidates demonstrated sufficient understanding of the issues on integrated reporting, sustainability reporting and financial reporting. The challenge for them is merging integrated reporting with sustainability reporting and financial reporting.
• Part b) was in two parts, part b) i) and b) ii). It tested ethical issue pertaining to an inventory adjustment which was done by a Finance Director and identified by the Finance Manager (his subordinate) in a scenario.
• Part b) i) asked candidates to explain why the inventory adjustment suggests an ethical issue. Not many candidates could clearly explain the effect of stock manipulation on profits as a basis for breaching ethical standards.
• Part b) ii) required candidates to explain four courses of action that the Finance Manager should take in respect of the issue that he has identified. Too much focus was placed on inventory taking procedures and inventory valuation as against dealing with the ethical issue. A number of candidates displayed lack of appreciation of organisational hierarchy by suggesting that the Finance Manager should reverse what the Finance Director had done. Some candidates repeated their answers hoping that the Examiner would not detect it; it was waste of time.
• Part c) required candidates to identify and explain two different approaches to determining what a “reporting entity” should be for financial reporting purposes. This question was poorly answered. It is clear that candidates have not paid attention to the Conceptual Framework for Financial reporting – The reporting Entity (DP).