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

EXAMINERS' GENERAL COMMENTS

The Financial Reporting examination paper was well-structured and aligned with the ICAG syllabus. The paper effectively assessed candidates on key IFRS standards and financial reporting principles. The clarity of the questions was commendable, with no significant ambiguities or errors in the requirements. Overall, candidates were expected to demonstrate a high level of analytical and application skills in tackling the paper.

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

STANDARD OF THE PAPER

The standard of the paper was comparable to previous examination sessions, with comprehensive syllabus coverage and an appropriate difficulty level for the cognitive domain being examined. The mark allocation followed syllabus weightings, ensuring fairness across sub-questions. The consolidation question involved detailed calculations, including deferred consideration and fair value adjustments, in line with IFRS 3 (Business Combinations). Financial analysis questions were sufficiently complex to test analytical skills and IFRS applications. The clarity of requirements was excellent, with no ambiguity, and the questions met professional standards appropriate for ICAG examinations.

In this diet, candidates were also examined on the preparation of a statement of cash flows and its benefits. This was quite challenging for most candidates. The common-size analysis in Question 4 ensured critical thinking, and the questions were well-structured with clear instructions and relevant financial data.

PERFORMANCE OF CANDIDATES

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

NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES

Strengths:

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

Weaknesses:

- Despite good scores in Question 1, many candidates struggled with the correct presentation of consolidated financial statements.
- A considerable number of candidates lacked understanding of IFRS 15, affecting their performance in Question 2 (a)

- Question 3 on preparation of statement of cash flows posed the greatest challenge to most candidates. Some candidates did not appear to know the format and content of the statement of cash flows, as they failed to present their answers accordingly.
- Question 4, which was previously considered an easy section, proved challenging in this examination. The question was on common-size analysis with the financial statements provided in percentages and the candidates were required to critically analyse the information provided. This was very challenging for most candidates who did not practice any question on common-size financial statements.
- Many candidates failed to apply the relevant IFRSs correctly, highlighting the need for a stronger grasp of the standards.

GUIDANCE ON DEALING WITH FUTURE EXAM QUESTIONS

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

QUESTION ONE

Sekyedumase LTD (Sekyedumase) is a fruit processing company based in the Bono-East Region. The following financial statements relate to Sekyedumase and its investee companies, Wiamoase LTD (Wiamoase) and Nintin LTD (Nintin).

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2025.

	Sekyedumase LTD GH¢'million	**Wiamoase LTD GH¢'million**	**Nintin LTD GH¢'million**
Revenue	160.00	64.00	28.00
Cost of sales	(68.00)	(35.60)	(25.20)
Gross profit	**92.00**	**28.40**	**2.80**
Operating expenses	(22.80)	(12.80)	(1.20)
Finance costs	(4.00)	(2.40)	-
Other income	3.00	-	-
Dividends received	3.20	-	-
Profit before taxation	**71.40**	**13.20**	**1.60**
Taxation	(6.40)	(1.08)	(0.20)
Profit for the year	65.00	12.12	1.40
Other comprehensive income			
(amounts that will not be reclassified to profit or loss):			
Gains (losses) on remeasurement of financial assets	3.00	(0.80)	-
Total comprehensive income for the year	**68.00**	**11.32**	**1.40**
Retained earnings at 1 April 2024	920.00	70.00	40.00
Equity share capital at 1 April 2024	400.00	100.00	20.00

Additional Information:

i) Sekyedumase bought a 60% holding in the equity of Wiamoase on 1 October 2024. The purchase price of the investment was agreed at GH¢150 million, of which GH¢120 million was paid immediately. It was agreed that the balance of GH¢30 million would be paid two years following the acquisition. Wiamoase's net assets had a fair value of GH¢179.66 million on 1 October 2024. This was represented by equity shares, retained earnings and an increase in the fair value of non-depreciable land over the carrying value. The weighted average cost of capital for the group is 10%.

ii) It was decided to apply the fair value method to calculate goodwill on acquisition. The non-controlling interest in Wiamoase had a fair value of GH¢76 million at the acquisition date. Impairment losses of GH¢6 million were deemed to have arisen by 31 March 2025 in respect of the goodwill of Wiamoase.

iii) Sekyedumase has owned 40% of the equity shares in Nintin since incorporation. Sekyedumase has no representatives on Nintin's board of directors. However, Nintin manufactures a key component used by Sekyedumase. Sekyedumase purchases 75% of

Nintin's production. Both companies work closely together, with Sekyedumase providing technical information and certain managerial services to Nintin.

iv) During the year, Sekyedumase purchased goods from Nintin for GH¢21 million. Nintin earns a 10% margin on goods sold to Sekyedumase. These goods were incorporated by Sekyedumase into its own products, which were sold at a profit. GH¢2 million of the goods purchased from Nintin remained in the inventory of Sekyedumase at 31 March 2025.

v) During the year, Sekyedumase sold GH¢1 million worth of goods to Wiamoase each month. Sekyedumase earned a 20% mark-up on cost on the goods sold to Wiamoase. At 31 March 2025, Wiamoase had sold all of these goods except GH¢0.84 million of the most recent delivery. These goods remained in the inventory of Wiamoase at 31 March 2025.

vi) On 1 October 2024, immediately following the acquisition of Wiamoase, Sekyedumase sold a piece of equipment to Wiamoase for GH¢8 million. This equipment had a carrying value of GH¢5 million prior to the transfer. The gain on sale was shown as 'other income' in the books of Sekyedumase. The equipment had a five-year useful economic life remaining at the date of transfer.

vii) On 1 March 2025, Wiamoase declared and paid a dividend of GH¢4 million out of post-acquisition profits. On the same date, Nintin declared and paid a dividend of GH¢2 million. Sekyedumase recorded its share of both dividends as 'dividends received'.

viii) Present Value Interest Factors for a 10% per annum interest rate are as follows:

1 year	0.909
2 years	0.826
3 years	0.751

Note:
All calculations may be taken to the nearest GH¢0.1 million. Assume all expenses and income accrue evenly throughout the year unless otherwise instructed. No new equity shares were issued by any group company during the year.

Required:

a) Calculate the goodwill on the acquisition of the shares in Wiamoase as should be shown on the consolidated statement of financial position of the Sekyedumase Group on 31 March 2025, in accordance with IFRS. You should identify separately the amount of the fair value adjustment to the land. **(5 marks)**

b) Prepare a Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Sekyedumase Group for the year ended 31 March 2025 in accordance with IFRS. **(15 marks)**

(Total: 20 marks)

QUESTION TWO

a) Somwarbi LTD has a contract to sell its product to a customer for GH¢200 per unit during the 2024 financial year. The price would drop to GH¢150 per unit if the customer bought more than 1,200 units in a year. Based on their prior trading history, Somwarbi LTD did not anticipate that the customer would buy more than 1,200 units on the day the contract was initiated.

However, on 1 October 2024, Somwarbi LTD formed the view that the customer would meet or exceed the 1,200 units' threshold based on its sales of 1,100 units by that date. The customer had purchased 500 units on that date and informed management of Somwarbi LTD that it would be placing a further order of 200 units on 1 December 2024. This customer had purchased 600 units by 30 June 2024.

Required:
In line with ***IFRS 15: Revenue from Contracts with Customers***, demonstrate how Somwarbi LTD should account for its revenue in the period from 1 January 2024 to 30 June 2024 and in the period from 1 July 2024 to 31 December 2024. **(6 marks)**

b) Ghana aims to achieve its target of 10% of its total energy consumption coming from renewable sources by 2028. In line with its strategy to promote a sustainable and varied renewable energy industry, the government has recently extended subsidies to businesses that make solar farm investments. Motivated by this government assistance, Metumi PLC, your employer, has lately joined the solar energy industry.

In March 2024, Metumi PLC installed and paid for GH¢600,000 of property, plant and equipment (PPE) on a farm. The PPE will be depreciated over 25 years. In July 2024, the government provided a grant of 40% to the company towards this PPE. The company's depreciation policy is to charge a full year's depreciation in the year of purchase and none in the year of sale.

Required:

i) In accordance with ***IAS 20: Accounting for Government Grants and Disclosure of Government Assistance,*** explain how a repayment of a government grant should be accounted for in the financial statements. **(3 marks)**
ii) For each method of presenting a government grant in financial statements, provide the journal entries based on the above information. **(5 marks)**

c) ***IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors*** draws a clear distinction between accounting policies and accounting estimates.

Fayiah LTD made these changes during the year:

i) Revision of the monetary amount of a provision for expected costs of a court case taken against the entity, as a result of new information received.
ii) Revision of the useful economic life used to depreciate plant and equipment from 6 years to 3 years.
iii) Change from the cost model to the revaluation model of IAS 16 – Property, Plant and Equipment in respect of properties.

Required:
For each of the above changes, justify which one would be considered a change of ***accounting policy*** or a change in ***accounting estimate*** under IAS 8. **(6 marks)**

(Total: 20 marks)

QUESTION THREE

The financial statements of Blamo PLC, a retailer of electronic products, are given below:

Statement of Financial Position as at 31 October

	2024		2023	
	GH¢'000	GH¢'000	GH¢'000	GH¢'000
Non-current assets				
Property, Plant & Equipment	96,624		83,508	
Intangible assets	8,634		10,590	
		105,258		94,098
Current assets				
Inventories	65,586		56,880	
Receivables	26,574		23,352	
Cash at bank and in hand	21,948		45,108	
		114,108		125,340
		219,366		**219,438**
Equity				
Equity shares of GH¢1 each	2,700		2,400	
Share deals account	9,600		9,000	
Retained earnings	53,706		52,944	
		66,006		64,344
Non-current liabilities				
7% Loan notes	41,700		9,000	
Obligations under finance leases	5,958		2,136	
Deferred taxation	1,404		648	
		49,062		11,784
Current liabilities				
Trade payables	85,794		138,972	
Overdraft	12,738		–	
Taxation	1,800		1,500	
Warranty provision	3,066		2,568	
Obligations under finance leases	900		270	
		104,298		143,310
		219,366		**219,438**

Statement of Profit or Loss for the Year Ended 31 October 2024

	GH¢'000
Revenue	500,580
Cost of sales	(425,256)
Gross profit	**75,324**
Operating expenses	(62,676)
Profit from operations	**12,648**
Finance costs	(4,854)
Profit before tax	**7,794**
Taxation	(4,032)
Profit for the year	**3,762**

Statement of Changes in Equity for the Year Ended 31 October 2024

	Share capital GH¢'000	Share Deals A/c GH¢'000	Retained earnings GH¢'000	Total GH¢'000
Opening balance	2,400	9,000	52,944	64,344
Profit for the year			3,762	3,762
Dividends paid			(3,000)	(3,000)
Issue of shares	300	600		900
Closing balance	**2,700**	**9,600**	**53,706**	**66,006**

Additional information:

i) An item of plant with a carrying amount of GH¢5,790,000 was sold at a loss of GH¢300,000 during the year. Depreciation of GH¢14,370,000 was charged (to operating expenses) for Property, Plant and Equipment in the year ended 31 October 2024.

ii) New assets were acquired under finance leases in the year. The fair value of these assets at acquisition was GH¢5,760,000.

iii) There were no acquisitions or disposals of intangible assets during the year.

iv) The company issued new shares at full market value.

v) Warranty costs are included in cost of sales.

Required:

a) Prepare a statement of cash flows for Blamo PLC for the year ended 31 October 2024 in accordance with ***IAS 7: Statement of Cash Flows***. **(17 marks)**

b) Explain **THREE** benefits of cash flow statements to Blamo PLC. **(3 marks)**

(Total: 20 marks)

QUESTION FOUR

a) Garpi Industries LTD, Kotio Processing LTD and Nabiew Enterprises LTD are entities engaged in the processing of shea-nut into shea-butter for export. For the year ended 30 September 2024, the financial statements of the companies were summarised as follows (all figures are presented as percentages of total turnover) for your assessment as a prospective Group Finance Officer.

Common Size Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 30 September 2024

Item	Garpi Industries LTD (%)	Kotio Processing LTD (%)	Nabiew Enterprises LTD (%)
Revenue	100	100	100
Cost of Sales	(67)	(57)	(62)
Gross Profit	**33**	**43**	**38**
Distribution & Administrative Expenses	(24)	(23)	(28)
Profit before Interest & Tax	**9**	**20**	**10**
Finance Cost	(5)	-	(7)
Profit Before Tax	**4**	**20**	**3**
Taxation	(1)	(10)	(1)
Profit After Tax	**3**	**10**	**2**
Dividends	(1)	(10)	-
Retained Earnings	**2**	**-**	**2**

Statement of Financial Position as at 30 September 2024

Item	Garpi Industries LTD (%)	Kotio Processing LTD (%)	Nabiew Enterprises LTD (%)
Property, Plant & Equipment	**110**	**125**	**100**
Current Assets:			
Inventories	25	20	30
Trade Receivables	20	15	32
Cash	3	1	4
Total Current Assets	**48**	**36**	**66**
Current Liabilities:			
Trade Payables	11	23	12
Bank Overdraft	15	-	10
Taxation	8	20	9
Total Current Liabilities	**34**	**43**	**31**
Net Current Assets	**10**	**(7)**	**35**
12% Loan Notes	(20)	-	(35)
Total Net Assets	**100**	**100**	**100**
Financed by:			
Stated Capital	85	75	95
Revaluation reserve	-	5	-
Retained Earnings	15	20	5
Total Equity	**100**	**100**	**100**

Required:

a) Evaluate the performance of the three companies by commenting on their profitability, gearing and liquidity. **(14 marks)**

b) Discuss **THREE** benefits of using value added statements as a measure of a company's performance. **(3 marks)**

c) Analyse the limitations of value added statements, providing examples to illustrate your points. **(3 marks)**

(Total: 20 marks)

QUESTION FIVE

a) Karpoleh Fisheries LTD is a large fishing company that operates a fleet of vessels in West African waters. Recently, the company was sued by several environmental organisations for allegedly contributing to the destruction of marine ecosystems through overfishing and pollution. The lawsuit demands significant compensation and remedial actions.

The company's legal team believes there is a reasonable possibility of losing the case, which could result in substantial financial liabilities. As the finance team prepares the financial statements, they must determine how to account for this contingent liability and the associated sustainability and climate-related risks.

Required:

Discuss the role of ***corporate governance*** in managing the sustainability and climate-related risks faced by Karpoleh Fisheries LTD. **(6 marks)**

b) The European Union has taken a decisive step to scale back its landmark sustainability and due diligence regulations, a move that could have far-reaching implications for African economies increasingly aligned with responsible trade and ESG reporting.

Corporate sustainability and sustainable development are closely related but distinct concepts. By adopting sustainable practices, companies can contribute positively to sustainable development goals.

Required:

i) Distinguish between ***corporate sustainability*** and ***sustainable development***. **(3 marks)**

ii) Identify and explain the **THREE** impact areas of corporate sustainability. **(6 marks)**

c) In line with ***IFRS 9: Financial instruments*** requirements, financial assets must be classified into one of three categories on initial recognition. This determines its subsequent measurement.

Required:

Detail the **THREE** categories on initial recognition. **(5 marks)**

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

a) Calculation of goodwill on acquisition of Wiamoase under IFRS**:**

Goodwill	**GH¢'million**
Fair value of Parent's investment:	
Cash	120.00
Deferred consideration (30 million x 0.826)	24.78
	144.78
Fair Value of NCI at acquisition	76.00
Less FV of Net Assets at acquisition (W2)	(179.66)
Goodwill at acquisition	41.12
Less Impairment loss	(6.00)
Goodwill at reporting date	**35.12**

b)

Sekyedumase Group
Consolidated Statement of Profit or Loss and Other Comprehensive Income for year ended 31 March 2025

	GH¢ million
Revenue (160 + $^{6}/_{12}$*64-6) (v)	186
Cost of Sales (68 + $^{6}/_{12}$ *35.6- 6 + 0.14(v) – 0.3 + 0.08)	(79.72)
Gross Profit	106.28
Operating expenses (22.8 +$^{6}/_{12}$ *12.8+ 6) (iii)	(35.2)
Finance costs (4 + $^{6}/_{12}$ *2.4+1.24) (viii)	(6.44)
Other income (3-3 (vi)	0
Dividends received (3.2-3.2 (vii)	0
Income from Associate	0.48
Profit before taxation	65.12
Taxation (6.4 + 0.54)	(6.94)
Profit for the year	58.18
Other Comprehensive Income (Amounts that will not be reclassified to profit or loss)	
Gains on remeasurement of financial assets (3 – $^{6}/_{12}$ *0.8)	2.6
Total comprehensive income for the year	**60.78**
Profit for the year is attributable to:	
Owners of the parent	58.04
Non-controlling interests (ii)	0.14
	58.18
Total Comprehensive Income is attributable to:	
Owners of the parent	60.80
Non-controlling interests (ii)	(0.02)
	60.78

Workings (in GH¢ million)

1 Group structure

Sekyedumase	Parent's interest = 60%
↓ 60%	NCI = 40%
Wiamoase	Acquisition was 6 months ago.

Sekyedumase → Nintin (40%, several years ago)

2 Fair value of Net Assets of the Subsidiary

	At Acq'n
Equity capital	100.00
Retained earnings (70 + (12.12 x 6/12))	76.06
Fair value adjustment - Land (balancing figure)	3.60
	179.66

3 Inter-company sales

Sales to Wiamoase = 1 million x 6 months	6.00
Prov. for unrealised profiit = 0.84m x 20/120	0.14
Sales by Nintin	21.00
Prov for unrealised profit = 2 million x 10% x 40%	0.08

4 Transfer of NCA - Equipment

	Without transfer	**With transfer**	
Carrying amt at date of tansfer	5.00	8.00	3.00
Depreciation charged	(0.50)	(0.80)	(0.30)
Carrying amt at reporting date	**4.50**	**7.20**	**2.70**

5 Share of dividends received

Wiamoase = 4 million x 60%	2.40
Nintin = 2 million x 40%	0.80
	3.20

6 Income from Associate

Share of Assoc. Profit for the year (1.40 x 40%)	0.56
Less Provision for unrealised profit (W3)	(0.08)
	0.48

7 Unwound discount on deferred consideration **1.24**
(24.78 x 10% x 6/12)

8 Profit for the year attributable to NCI

Subsidiary's profit for the year (12.12 x 6/12)	6.06
Adjustments for:	
Impairment loss on goodwill	(6.00)
Extra depreciation charged on equipment (W4)	0.30
Adjusted Profit for the year	0.36
x NCI%	x 40%
	0.14

9 Total comprehensive income attributable to NCI

Profit for the year attributable to NCI (W8)	0.14
Plus Share of Sub's post-acq'n gains (losses)	
on remeasurement of financial assets (-0.80 x 6/12 x 40%)	(0.16)
	(0.02)

(15 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question One required candidates to prepare a Consolidated Statement of Profit or Loss and Other Comprehensive Income for a Parent, Subsidiary and Associate, and to calculate goodwill arising on acquisition of a subsidiary. Overall performance on this question was below expectation, with many candidates scoring less than 5 out of 20 marks.

While some candidates demonstrated competence in the numerical aspects of the question, a significant number struggled with the correct presentation and structure of consolidated financial statements.

Guidance for Future Exams:

Master the structure and presentation:

- Carefully study the format and structure of consolidated financial statements as per IFRS. Candidates are advised to make use of examination materials on ICAG website.
- Practice preparing complete statements, ensuring correct classifications and disclosures

Study key IFRSs:

Candidates must ensure thorough coverage of the following standards:

- *IAS 27: Separate Financial Statements*
- *IAS 28: Investments in Associates and Joint Ventures*
- *IFRS 3: Business Combinations*
- *IFRS 10: Consolidated Financial Statements*
- *IFRS 11: Joint Arrangements*
- *IFRS 12: Disclosure of Interests in Other Entities*
- *IFRS 13: Fair Value Measurement*

Improve practical application:

- Work on past questions and mock exams to reinforce consolidation techniques.
- Pay special attention to goodwill calculations, elimination of intra-group balances and NCI adjustments.

QUESTION TWO

a) **Period 01.01.24 – 30.06.24**

As Somwarbi LTD does not believe that the customer will hit the target, it should account for the sales using a sales price per unit of 200 i.e. sales of 600 units x 200 per unit = 120,000 as follows:

Dr. Trade Receivables	120,000	
Cr. Revenue		120,000.

Period 01.07.24 – 31.12.24

On the basis that Somwarbi LTD believes that the customer will reach its target, it should account for its transactions with the customer as follows: Order of 500 units x 150 = 75,000

Dr. Trade Receivables	75,000	
Cr. Revenue		75,000

Order of 200 units x 150 = 30,000

Dr. Trade Receivables	30,000	
Cr. Revenue		30,000

Recalculating the sales value of the original 600 units sold in the first six months at 150 per unit instead of 200 per unit i.e. 50 selling price per unit of a difference i.e. 600 units x 50 per unit difference = 12,000 as follows:

Dr. Revenue	12,000	
Cr. Trade Receivables		12,000

(6 marks)

b)

i) A government grant per paragraph 32 of IAS 20, that becomes repayable shall be accounted for as a change in accounting estimate. Repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant and then in profit or loss.

Repayment of a grant related to an asset shall be recognised by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised in profit or loss to date in the absence of the grant shall be recognised immediately in profit or loss.

(3 marks)

ii)

Method (a) Treat the grant as deferred income

The asset would be capitalised as follows:

Dr. Property, Plant & Equipment (PPE)	600,000	
Cr. Bank		600,000

Receipt of Grant

Dr. Bank	240,000	
Cr. Deferred Income– Liabilities		240,000

Depreciation of the asset - 600,000 / 25years:

Dr. Depreciation Expense	24,000	
Cr. Accumulated Depreciation (PPE)		24,000

Amortisation of Grant - 240,000 / 25years:

Dr. Deferred Income	9,600	
Cr. Other Income		9,600

Method (b) – Deduct the grant from the cost of the related asset
The asset would be capitalised as follows:

Dr. Property, Plant & Equipment (PPE)	600,000	
Cr. Bank		600,000

Receipt of Grant

Dr. Bank	240,000	
Cr. Property, Plant & Equipment (PPE)		240,000

Depreciation of the asset – (Cost 600,000 – Grant 240,000) / 25years

Dr. Depreciation Expense	14,400	
Cr. Accumulated Depreciation (PPE)		14,400

(5 marks)

c) (i) and (ii) are changes in **accounting estimates** because it represents monetary amounts in financial statements that are subject to measurement uncertainty. The development of these estimates involves using judgements or assumptions based on the most recent and reliable information (IAS 8.5, 32).

(iii) is a change in accounting policy. It represents specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
(6 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS
Question 2 assessed candidates' knowledge of the contents and application of the following IFRSs: *IFRS 15 – Revenue from Contract with Customers, IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*.
Most candidates performed well in parts (b) and (c), demonstrating a good understanding of the core concepts. However, performance declined in parts (a).
Question 2(a): Required candidates to demonstrate how revenue can be recognised when there is a variable consideration. Most candidates scored zero, indicating a lack of understanding of the revenue recognition process laid down in IFRS 15.

Key Areas of Weakness:

- Failure to apply IFRS correctly across multiple areas. Some candidates displayed difficulty in applying IFRS principles to practical scenarios. This suggests a lack of deep conceptual understanding rather than exam pressure or time constraints.
- Weak Knowledge of IFRS 15 dealing with variable consideration within the transaction price.
- Poor Understanding of IAS 20 dealing with repayment of Government Grants.

Guidance for Future Exams:

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

Develop a strong conceptual understanding of IFRSs

- Instead of memorizing formulas, focus on understanding the principles behind IFRS standards.
- Study how different standards interact in practical business scenarios.

Enhance practical application through scenario-based questions

- Work on case studies and past questions that test real-world IFRSs applications.
- Practice IFRS-based questions that require interpretation rather than just recall.

Pay attention to disclosure requirements

- Review disclosure requirements in IFRS, particularly in the 2.1 Syllabus
- Understand the structure of financial statements and how to present required disclosures.

Improve understanding of the 5-Step Model in IFRS 15.

QUESTION THREE

a) **BLAMO PLC**
STATEMETN OF CASH FLOWS FOR THE YEAR ENDED 31 OCTOBER, 2024

	GH¢	GH¢
Cash flows from operating activities:		
Profit before tax	7,794	
Adjustments for:		
Finance costs	4,854	
Depreciation	14,370	
Amortisation of intangible assets (8,634– 10,590)	1,956	
Increase in warranty provision (3,066 – 2,568)	498	
Loss on sale of assets	300	
	29,772	
Changes in working capital:		
Increase in inventories (65,586 – 56,880)	(8,706)	
Increase in receivables (26,574 – 23,352)	(3,222)	
Decrease in payables (85,794 – 138,972)	(53,178)	
Cash generated from operations	(35,334)	
Interest paid	(4,854)	
Tax paid (W1)	(2,976)	
Net cash outflow from operating activities		(43,164)
Cash flows from investing activities:		
Proceeds from sale of property (5,790 – 300)	5,490	
Purchase of Property, plant and equipment (W2)	(27,516)	
Net cash outflow from investing activities		(22,026)
Cash flows from financing activities:		
Issue of share capital (2,700 – 2,400 + 9,600 – 9,000)	900	
Issue of interest bearing borrowings (41,700 – 9,000)	32,700	
Repayment of finance leases (W3)	(1,308)	
Dividends paid	(3,000)	
Net cash inflow from financing activities		29,292
Increase in cash and cash equivalents		**(35,898)**
Cash and cash equivalents at start of year		45,108
Cash and cash equivalents at close of year (21,948 – 12,738)		**9,210**

WORKINGS (in GH¢'000)

1 Tax paid

Opening balance:		
Deferred tax	648	
Current tax	1,500	2,148
Statement of profit or loss charge		4,032
Closing balance:		
Deferred tax	1,404	
Current tax	1,800	(3,204)
Tax paid		**2,976**

2 Property, plant and equipment

Opening balance	83,508
Disposal	(5,790)
Depreciation	(14,370)
Additions - Finance lease	5,760
Closing balance	(96,624)
Additions - Cash paid	**(27,516)**

3 Finance lease

Opening balance:		
Non-current	2,136	
Current	270	2,406
PPE additions		5,760
Closing balance:		
Non-current	5,958	
Current	900	(6,858)
Cash paid		**1,308**

(17 marks)

b) Benefits of cash flow statements to Blamo PLC

- A statement of cash flows provides information that helps users to evaluate changes in the net assets of an entity and its financial structure (including its liquidity and solvency).
- It provides information that helps users to assess the ability of the entity to affect the amount and timing of its cash flows in order to adapt to changing circumstances and unexpected opportunities.
- It is useful in assessing the ability of the entity to generate cash and cash equivalents.
- It helps users of accounts to compare the performance of different entities because unlike profits, comparisons of cash flows are not affected by the different accounting policies used by different entities.
- Historical cash flows are often a fairly reliable indicator of the amount, timing and certainty of future cash flows.

(Any 3 relevant points @ 1 mark each = 3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question required candidates to prepare statement of cash flows.

The question was straightforward and required workings to determine the following items:

- Tax paid
- Cash additions of property, plant and equipment
- Cash received from issue of shares
- Cash repayment for finance leases

Unfortunately, only a few candidates were able to score more than 10 marks out of 20.

The key challenges identified were:

- Lack of proper structure and content of the statement of cash flows: Many candidates did not show clear understanding of the structured and content of statement of cash flows.
- Errors in classification and presentation: Mistakes in the statement formats and misplacement of items resulted in loss of marks.

Guidance for future questions in this area

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

- Understand IFRS principles thoroughly – Focus on *IAS 7: Statement of Cash Flows Presentation* format.
- Show detailed workings – Break down calculations clearly, labelling figures appropriately to demonstrate logical steps.
- Follow correct statement formats – Ensure proper headings, sub-totals, and classifications in line with IFRS presentation requirements.
- Apply correct accounting treatments – Pay attention to adjustments for revaluations, disposals, depreciation, and deferred tax.
- Manage time effectively – Allocate time wisely to cover all required statements and supporting calculations.
- Practice past exam questions – Regularly working on similar structured questions improves familiarity and accuracy.

QUESTION FOUR

a)

Introduction

In evaluating the financial performance of Garpi Industries LTD, Kotio Processing LTD, and Nabiew Enterprises LTD, it is essential to assess their profitability, gearing, liquidity, and investment in non-current assets. These companies, engaged in the competitive shea-butter processing industry, present distinct financial profiles that provide insights into their operational efficiencies and strategic priorities.

Profitability

Profitability is a critical indicator of a company's ability to generate earnings from its revenue. Among the three companies, Kotio Processing LTD exhibits the highest gross profit margin at 43%, suggesting superior control over its cost of sales compared to Garpi Industries Ltd (33%) and Nabiew Enterprises LTD (38%). This strong gross profit margin indicates that Kotio Processing LTD may have more efficient production processes or better pricing strategies.

In terms of operating profit, as reflected by the Profit Before Interest and Tax (PBIT) margin, Kotio Processing LTD again outperforms its peers with a margin of 20%. This suggests that the company is more effective in managing its distribution and administrative expenses, thereby converting a larger portion of its revenue into operating profit. Garpi Industries LTD and Nabiew Enterprises LTD trail behind with PBIT margins of 9% and 10%, respectively.

At the net profit level, Kotio Processing LTD continues to lead with a Profit After Tax (PAT) margin of 10%, significantly higher than Garpi Industries LTD (3%) and Nabiew Enterprises LTD (2%). This robust profitability across all levels highlights Kotio Processing LTD as the most financially efficient company in the group.

Gearing

Gearing, or the level of debt relative to equity, is a key factor in assessing a company's financial risk. Garpi Industries LTD and Nabiew Enterprises LTD both exhibit significant gearing, which increases their financial risk. Garpi Industries LTD has 12% Debenture Stocks accounting for 20% of its total assets and incurs a finance cost of 5%. Nabiew Enterprises LTD has an even higher level of gearing, with 12% Debenture Stocks making up 35% of its total assets, resulting in a finance cost of 7%.

In contrast, Kotio Processing LTD has no gearing, as it carries no debenture stocks and incurs no finance costs. This debt-free position reduces financial risk and provides the company with greater financial flexibility, allowing it to reinvest profits into operations or other strategic initiatives.

Liquidity

Liquidity measures a company's ability to meet its short-term obligations, which is crucial for maintaining smooth operations. Nabiew Enterprises LTD has the strongest liquidity position, with a current ratio of 2.13, indicating that it has more than enough current assets to cover its current liabilities. This is further supported by its net current assets of 35%, the highest among the three companies.

Garpi Industries LTD has a moderate liquidity position, with a current ratio of 1.26, suggesting that it has sufficient current assets to meet its short-term liabilities, though with less of a cushion compared to Nabiew Enterprises LTD. Kotio Processing LTD, on the other hand, has a current ratio of 0.84, indicating potential liquidity challenges. Its negative net

current assets of -7% further highlight the risk of not being able to cover short-term obligations without additional financing or asset sales.

Investment in Non-Current Assets

Investment in non-current assets, such as Property, Plant, and Equipment (PPE), is indicative of a company's commitment to long-term growth and operational capacity. Kotio Processing LTD has invested 125% of its total assets in non-current assets, suggesting a significant focus on enhancing production capabilities and positioning itself for future expansion.

Garpi Industries LTD and Nabiew Enterprises LTD have also made substantial investments in non-current assets, with 110% and 100% of their total assets, respectively, allocated to PPE. These investments are essential for maintaining competitive operations, though Kotio Processing LTD's higher investment may give it a competitive advantage in terms of production efficiency and capacity.

Conclusion

Overall, Kotio Processing LTD emerges as the strongest performer in terms of profitability and investment in non-current assets, although it faces potential liquidity challenges that could impact its ability to sustain operations without additional financing. Nabiew Enterprises LTD exhibits strong liquidity and investment in non-current assets but carries significant financial risk due to its high gearing. Garpi Industries LTD presents a balanced profile with moderate performance across profitability, gearing, and liquidity, though it does not excel in any particular area.

(14 marks)

b) **Benefits of Value Added Statements (VAS)**

i) **Holistic View of Wealth Creation and Distribution:**

- **Insight into Wealth Creation:** Value added statements (VAS) provide a clear picture of how much wealth a company generates through its core business activities. This wealth is the value added to the raw materials and services purchased by the company. By focusing on value creation, VAS helps stakeholders understand the efficiency and effectiveness of the company's operations.
- **Distribution to Stakeholders:** Unlike traditional financial statements, which primarily focus on profit, VAS breaks down how the generated wealth is allocated to various stakeholders. This includes employees (through wages and salaries), providers of capital (interest and dividends), the government (taxes), and the company itself (retained earnings and reinvestment). This transparency in distribution helps assess whether the company is fairly and sustainably managing its relationships with all its stakeholders.

ii) **Employee and Social Responsibility Focus:**

- **Highlighting Employee Contributions:** Value added statements emphasize the importance of employees in the wealth creation process. By showing the portion of value added allocated to wages and salaries, VAS highlights the company's commitment to its workforce. This can be particularly useful in industries where labour is a significant component of production, such as manufacturing or services.
- **Corporate Social Responsibility (CSR):** VAS can also reflect a company's CSR initiatives by showing how much wealth is allocated to the community or environmental projects. For instance, a company that invests in local development or sustainability projects can use VAS to demonstrate its contributions beyond just generating profits.

iii) **Enhanced Transparency and Stakeholder Communication:**

- **Clearer Communication:** By detailing how wealth is distributed, VAS provides a clearer and more understandable picture of a company's financial performance for non-financial stakeholders, such as employees, community members, and the public. This transparency can enhance trust and engagement among stakeholders.
- **Benchmarking and Internal Analysis:** Companies can use VAS to benchmark their performance over time or against competitors in the same industry. By analyzing changes in value distribution, management can make informed decisions about resource allocation, employee compensation, and investment in new projects.

iv) **Focus on Sustainable Growth:**

Long-Term Perspective: VAS encourages companies to focus on long-term sustainability rather than short-term profits. By showing how much value is reinvested into the business through retained earnings and depreciation, VAS underscores the importance of maintaining and growing the company's productive capacity for the future.

(Any 3 relevant points @ 1 mark each = 3 marks)

c) **Limitations of value added statements**

i) **Misinterpretation and misguided management focus:**

Maximizing value added, rather than profit, might become the primary goal, potentially leading to suboptimal decisions. This could involve focusing on aspects that don't necessarily translate to increased shareholder value or overall business success.

ii) **Lack of standardization and comparability:**

The absence of standardized methods for preparing value added statements across different companies makes it challenging to compare their performance. For instance, one company might include depreciation as a cost in their value added calculation, while another might not, making direct comparison difficult.

iii) **Increased costs and confidentiality concerns:**

Preparing value added statements involves extra effort, potentially increasing costs and leading to delays in reporting. The additional disclosure required by the statement might also compromise some level of confidentiality.

iv) **Focus on the past, not future prospects:**

Value added statements primarily reflect past performance and may not accurately capture a company's future growth potential. For example, a company might have a high value added in the current year due to a one-time project, but its future prospects might be uncertain.

(Any 3 relevant points @ 1 mark each = 3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The Part (a) of the question required candidates to carry out common-size analysis of the financial performance and position of an entity using already calculated percentages from the statement of profit or loss.

The question was very clear in meaning except that no calculations were required. Candidates were simply expected to analyse the financial statements using the calculated percentages. In spite of the fact that no calculations were required, most candidates still went ahead to re-compute those percentages as ratios resulting in complete waste of time and scoring below 10 marks at the end.

Candidates are expected to practice questions using both common-size analysis and ratio analysis.

Parts (b) and (c) examined candidates on the benefits and limitations of using value added statements. These were well answered by most candidates.

QUESTION FIVE

a) **Role of corporate governance in managing sustainability and climate-related risks faced by Karpoleh Fisheries LTD.**
Corporate governance plays a critical role in ensuring that Karpoleh Fisheries Ltd addresses sustainability and climate-related risks effectively:

Board Oversight:
The Board of Directors must ensure that the company is compliant with environmental regulations and adopting sustainable practices. This involves setting clear sustainability targets and monitoring progress.

Environmental and Social Governance (ESG) Integration:
The company should have a robust ESG framework, integrating climate-related risks into its overall corporate strategy. This may include appointing a Chief Sustainability Officer (CSO) and creating a sustainability committee to oversee climate risk management.

Transparency and Reporting:
Karpoleh Fisheries should provide transparent disclosures related to climate risks and sustainability issues in its annual report. This would build trust with investors and ensure compliance with regulatory requirements such as the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Stakeholder Engagement:
The Board should engage actively with stakeholders (e.g. shareholders, regulators and environmental groups) to mitigate reputational risks and develop policies that address both business sustainability and environmental concerns.

(6 marks)

b)

i) Corporate sustainability is a business approach that integrates environmental and social considerations into a company's strategy and operations to create long-term value. Sustainable development, on the other hand, is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Corporate sustainability focuses specifically on the role of a firm in achieving sustainability goals whereas Sustainable development focuses on broader societal goals and long-term well-being.

(3 marks)

ii) **Three impact areas of corporate sustainability**

Economic sustainability	Emphasises the maintenance of natural resources that provide inputs to economic production. Inputs may be renewable (e.g. wind power) or exhaustible (e.g. oil).
Environmental sustainability	Emphasises the maintenance of wider environmental systems that support economic production and human life e.g. the atmosphere, soil, water.
Social sustainability	Emphasises the maintenance and improvement of society and overcoming negative effects of economic systems e.g. hunger, poverty, inequality.

(6 marks)

c) **Categories of financial instruments on initial recognition.**
Per requirements of IFRS 9, financial assets can be classified into amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

i) **Amortized Cost:**
A financial asset shall be measured at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

ii) **Fair Value through Other Comprehensive Income (FVOCI):**
A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

iii) **Fair Value through Profit or Loss (FVTPL):**
A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost (in accordance with paragraph 4.1.2) or at fair value through other comprehensive income (in accordance with paragraph 4.1.2A.).
However, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

(5 marks)

(Total: 20 marks)

EXAMINERS' COMMENTS

Part (a) of the question required candidates to demonstrate knowledge in the application of corporate governance principles in managing sustainability and climate-related risks.
Part (b) required candidates to distinguish between corporate sustainability and sustainable development and to explain the three areas of corporate sustainability.
Part (c) required candidates to explain the three classifications of financial assets on initial recognition.
Most candidates scored good marks in each of the three parts of this question. However, some candidates did not prepare very well in this part of the syllabus and therefore scored below 10 marks.

CONCLUSION AND RECOMMENDATIONS

Financial Reporting Examination Preparation Tips:

Practice Extensively

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

Enhance IFRS Knowledge

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

Improve Application Skills

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

Time Management

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

Practice Under Exam Conditions

Review examiner reports to understand common mistakes and expected approaches.