CHARTERED INSTITUTE OF BANKERS, GHANA
ASSOCIATESHIP EXAMINATION
LEVEL III
FINANCIAL REPORTING, PLANNING AND ANALYSIS
APRIL 2024

N.B.

1. Read carefully the instructions on the cover of the answer book.

2. Answer **FOUR (4)** questions as follows:
   SECTION A – ONE COMPULSORY question (40 marks)
   SECTION B – THREE questions (20 marks each)

3. Marks allotted are shown in brackets.

4. The total number of questions in this paper is **SIX (6).**

5. Silent, non-programmable electronic calculators may be used in this examination. Whether or not candidates use them, it is in their interest to show the basic figures from which their calculations are made.

6. No other aids such as books, dictionaries, papers or mathematical tables are permitted in this examination.

7. Time allowed: **THREE HOURS**

8. **Additional 15 minutes of reading time** is allowed at the beginning of the examination when candidates may write on this paper but N**OT** in the answer book.

9. Candidates must ensure that they answer questions in the appropriate answer book and **NOT on loose sheets** which are used only as supplementary sheets. Such answers will be cancelled.

10. **DO NOT WRITE YOUR NAME ON THE ANSWER BOOK.**

11. **DO NOT OPEN THIS QUESTION PAPER UNTIL INSTRUCTED TO DO SO.**

SECTION A – COMPULSORY

QUESTION 1A

Vandee Oil Ltd. has been in business for the past ten (10) years. The following Trial Balance was extracted from the books of Vandee Oil Ltd. for the year ended 2023.

	GH¢'000	GH¢'000
Bank	46,200	
Trade Payable		25,000
Petty Cash	4,000	
Directors Current Account		320,000
Computer and Accessories	8,370	
Computer and Accessories: Accumulated Depreciation		3,348
Furniture and Fittings	10,255	
Furniture and Fittings: Accumulated Depreciation		2,050
Land and Building	214,000	
Land and Building: Accumulated Depreciation		8,560
Office Equipment	12,250	
Office Equipment: Accumulated Depreciation		2,450
Plant and Machinery	239,400	
Plant and Machinery: Accumulated Depreciation		47,880
Inventory	1,900	
Staff Loan	5,088	
Payroll Liabilities		550
Taxation	3,003	
Retained Earnings	49,282	
Share Capital		10,000
Sales		574,145
Purchases	355,000	
Bank Service Charges	1,300	
Business Promotion	1,500	
Communication	1,900	
Insurance	1,660	
Licenses and Permits	6,650	
Medical Expenses	155	
Printing and Stationery	300	
Professional Fees: Legal Fees	500	
Repairs: Equipment Repairs	2,600	
Salaries	23,050	
Electricity	780	
Water	280	
Vehicle Running Expense	4,560	
TOTALS	**993,983**	**993,983**

Additional information:

i) Closing Inventory as at December 2023 amounts to GH¢48,500,000

ii) The following assets were bought during the year 2023. However, these transactions were not recorded in the above Trial Balance:

Computers and Accessories	GH¢8,000,000
Fixtures and Fittings	GH¢5,000,000
Plant and Machinery	GH¢25,000,000

The following are the rates of Depreciation being used by the company, however Depreciation for 2023 is yet to be charged.

Land and Building	1%
Computers and Accessories	20%
Furniture and Fittings	10%
Plant and Machinery	20%
Office Equipment	20%

iii) Electricity stated in the Trial Balance include January 2024 Electricity Bill whiles that of Water represent six (6) months' payment for the year 2023.

iv) Staff bonuses amounting to GH¢15,000,000 was agreed on 31 December 2023 for staff. However, it was paid after the year end.

You are required to:

a) Prepare the Statement of Profit or Loss for the year ended 31 December 2023. (10 marks)

b) Prepare the Statement of Financial Position as at 31 December 2023. (10 marks)

QUESTION 1B

a) AFEN Ltd. obtained a license, free of charge from the government, to dig and operate a gold mine. AFEN Ltd. spent GH¢6 million digging and preparing the mine for operation and erecting buildings on the site. The mine commenced operations on 1 September 2022. The license requires that at the end of the mine's useful life of 20 years, the site must be reclaimed, all buildings and equipment must be removed and the site landscaped. At 31 August 2023, AFEN Ltd. estimated that the cost in 19 years' time of the removal and landscaping will be GH¢5 million and its present value is GH¢3 million.

On 31 October 2023, there was a massive earthquake in the area and AFEN Ltd's mine shaft was badly damaged. It is estimated that the mine will be closed for at least six (6) months and will cost GH¢1 million to repair.

You are required to:

i) Demonstrate how AFEN Ltd. should record the cost of the site reclamation as at 31st August 2023 in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets.

(3 marks)

ii) Explain how AFEN Ltd. should treat the effects of the earthquake in its financial statements for the year ended 31 August 2023 in accordance with IAS 10: Events after the Reporting Period.

(4 marks)

b) The main objective of International Accounting Standard (IAS) 2: Inventories is to prescribe the acceptable Accounting treatment for inventories when an economic entity is presenting its Final Accounts.

i. Define Net Realisable Value of Inventories according to IAS 2: Inventories.

(3 marks)

ii. State five (5) items that IAS 2: Inventories require NOT to be included in the Measurement of Inventory in the books of an economic entity.

(5 marks)

c. What are the Disclosure Requirements for Inventories according to IAS 2?

(5 marks)

[Total: 40 marks]

SECTION B – ANSWER ANY THREE QUESTIONS

QUESTION 2

a) IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors is applied in selecting and applying Accounting Policies, Accounting for Changes in Estimates and reflecting Corrections of Prior Period Errors. The standard requires compliance with any specific IFRS applying to a transaction, event or condition, and provides guidance on developing Accounting Policies for other items that result in relevant and reliable information.

You are required to:

Explain the following in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors:

i) Accounting Policies

(3 marks)

ii) A Change in Accounting Estimates

(3 marks)

iii) Prior Period Errors

(3 marks)

b) Zero Based Budgeting (ZBB) is a process of budgeting that allocates funding based on programme efficiency and necessity rather than budget history. ZBB aims to put the onus on managers to justify expenses and to drive value for an organisation by optimising cost and not just revenue. Adopting a ZBB Approach for a company may seem like an intimidating task but when weighed against the value derived, the effort is worth the result.

You are required to:

Explain four (4) challenges Management will face when implementing a Zero-Based Budgeting System.

(8 marks)

c) Organisations invest time and resources in creating and controlling budgets to ensure stability and predictability of their operations.

You are required to:

Explain three (3) factors necessary for an effective Budgetary Control System.

(3 marks)

[Total: 20 marks]

QUESTION 3

IAS 38: Intangible Assets defines the difference between Research Expenditure and Development Expenditure. IAS 38 also lays down rules which must be applied to the Capitalisation of Research and Development Expenditure.

You are required to:

i. Define an Intangible Asset under IAS 38: Intangible Assets.

(3 marks)

ii. Explain the Recognition Criteria for Intangible Assets.

(4 marks)

iii. State five (5) Disclosure Requirements of Intangible Assets under IAS 38

(5 marks)

iv. Explain the meaning of the terms Research Expenditure and Development Expenditure.

(3 marks)

v. Explain the conditions applied to Research and Development Expenditure, according to IAS 38, to determine whether or not the cost should be capitalised.

(5 marks)

[Total: 20 marks]

QUESTION 4

Potoo PLC is a listed Ghanaian company that produces textile prints for both local and African markets. As at the year ended 31 March 2023, the company made a Gross Profit of GH¢12,150. Cost of Sales for the year was GH¢77,850 and Operating Profit Before Interest and Tax was GH¢7,130. Finance Cost for the year was GH¢920 and Tax Charged to Profit or Loss was GH¢1,400.

The Inventory Turnover was 3.6 times. Dividend Paid Per Share was GH¢0.36 resulting in a Dividend Yield of 6%. Current Assets consist of Inventory, Cash and Trade Receivables.

Extracts from the Statement of Financial Position as at 31 March 2023 were as follows:

	GH¢
Non-Current Assets	63,320
Current Asset (excluding Inventory and Cash)	18,605
Current Liabilities	27,600
Shareholder's Fund	58,480
Cash	6,050
10% Debenture	23,500
Share Capital (@ GH¢3)	18,000

The following ratios relate to the industry in which Potoo Plc belongs to:

Profit (after Tax) Margin	4.1%
Current Ratio	1.12
Return on Capital Employed (ROCE)	9.10%
Inventory Turnover	3.47
Receivables Period	87 days
Dividend Yield	5.8%
P/E Ratio	12.5
Debt/Equity Ratio	32.6%

You are require required to:

a) As far as the above information permits, compute the following ratios for Potoo PLC:

i. Profit (after Tax) Margin
ii. Current Ratio
iii. Return on Capital Employed (ROCE)
iv. Receivables Period
v. Price/Earnings Ratio
vi. Debt/Equity Ratio

(12 marks)

b) Using the ratios above, write a report to the Board of Potoo PLC to assess the Financial Performance and Financial Position of the entity, relative to its industry.

(8 marks)

[Total: 20 marks]

QUESTION 5

a) Budgetary Control is a crucial aspect of managing businesses finances. By implementing a robust Budgetary Control System, businesses can use their financial resources effectively and efficiently to achieve their goals and objectives.

You are required to:

i) Explain what is meant by Budgetary Control System.

(3 marks)

ii) Recommend three (3) ways by which Budgetary Control System can help to provide information to ensure operational efficiency.

(6 marks)

b) IFRS 10: Consolidated Financial Statements outlines the requirements for the preparation and presentation of Consolidated Financial Statements, requiring entities to consolidate other entities it controls. The Control Principle in IFRS 10 sets out the following three (3) elements of control: **power over the investee; exposure to, or rights over, to variable returns from involvement with the investee; and the ability to use power over the investee to affect the amount of those returns.**

You are required to:

i) Explain what Consolidated Financial Statements are.

(3 marks)

ii) Identify four (4) circumstances under which a company may gain control over another company but would not be required to prepare Consolidated Financial Statements.

(8 marks)

[Total: 20 marks]

QUESTION 6

a) Discuss the responsibilities of External Auditors in promoting Good Corporate Governance of banks**. (You are required to state and discuss six (6) key responsibilities.)**

(12 marks)

b) Explain how External Auditors contribute to maintaining the Integrity of Financial Reporting and enhancing Shareholder confidence. **(You are required to list and explain four (4) mechanisms.)**

(8 marks)

[Total: 20 marks]