THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION- PILOT QUESTIONS AND SOLUTIONS 2025
FINANCIAL REPORTING
TIME ALLOWED: 3¼ hours (including 15 minutes reading time)

INSTRUCTION: **YOU ARE REQUIRED TO ATTEMPT FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER**

SECTION A: **COMPULSORY QUESTIONS** **(30 MARKS)**

QUESTION 1

a. On January 1, 2024, Victor acquired 90% of the equity share capital of Grace in a share exchange in which Victor issued two new shares for every three shares it acquired in Grace. Additionally, on December 31, 2024, Victor will pay the shareholders of Grace ₦1·76 per share acquired. Victor's cost of capital is 10% per annum.

At the date of acquisition, shares in Victor and Grace had a stock market value of ₦6·50 and ₦2·50 each, respectively.

Income statements for the year ended September 30, 2024

	Victor	**Grace**
	₦'000	**₦'000**
Revenue	64,600	38,000
Cost of Sales	(51,200)	(26,000)
Gross profit	13,400	12,000
Distribution costs	(1,600)	(1,800)
Administrative expenses	(3,800)	(2,400)
Investment income	500	nil
Finance costs	(420)	nil
Profit before tax	8.080	7,800
Income tax expenses	(2,800)	(1,600)
Profit for the year	5,280	6,200
Equity as at 1 October 2023		
Equity shares of N1 each	30,000	10,000
Retained earnings	54,000	35,000

The following information is relevant:

i. At the date of acquisition, the fair values of Grace's assets were equal to their carrying amounts with the exception of two items:

- An item of plant had a fair value of ₦1·8 million above it's carrying amount. The remaining life of the plant at the date of acquisition was three years. Depreciation is charged to cost of sales.
- Grace had a contingent liability which Victor estimated to have a fair value of ₦450,000. This has not changed as at September 30, 2024.

Grace has not incorporated these fair value changes into its financial statements.

ii. Victor's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose, Grace's share price at that date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.

iii. Sales from Victor to Grace throughout the year ended September 30, 2024 had consistently been ₦800,000 per month. Victor made a mark-up on cost of 25% on these sales. Grace had ₦1·5 million of these goods in inventory as at September 30, 2024.

iv. Victor's investment income is a dividend received from its investment in a 40% owned associate which it has held for several years. The underlying earnings for the associate for the year ended September 30, 2024 were ₦2 million.

v. Although Grace has been profitable since its acquisition by Victor, the market for Grace's products has been badly hit in recent months and Victor has calculated that the goodwill has been impaired by ₦2 million as at 2024.

Required:

i. Calculate the consolidated goodwill at the date of acquisition of Grace. (9 marks)

ii. Prepare the consolidated income statement for Victor for the year ended September 30, 2024 (16 marks)

(25 marks)

b. The carrying amount of a subsidiary's leased property will be subject to review as part of the fair value exercise on acquisition and may be subject to review in subsequent periods.

Required:

Explain how a fair value increase of a subsidiary's leased property on acquisition should be treated in the consolidated financial statements; and how any subsequent increase in the carrying amount of the leased property might be treated in the consolidated financial statements (5 marks)

Note: Ignore taxation. **(Total 30 marks)**

SECTION B: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THREE QUESTIONS IN THIS SECTION (40 MARKS)

QUESTION 2

Kfour is a publicly listed company. Its financial statements for the year ended March 31, 2023 including comparatives are shown below:

Statements of profit or loss and other comprehensive income for the year ended:

	March 31, 2023	**March 31, 2022**
	₦'000	**₦'000**
Revenue	31,000	25,000
Cost of sales	(21,600)	(18,600)
Gross profit	9,200	6,400
Distribution costs	(3,600)	(2,400)
Administrative expenses	(2,200)	(1,600)
Finance costs-Loan interest	(150)	(250)
Lease interest	(250)	(100)
Profit before tax	3,000	2,050
Income tax expenses	(1,000)	(750)
Profit before tax	3,000	2.050
Profit for the year	(1,000)	(750)
Other comprehensive income (note (i))	1,350	nil
	3.350	**1,300**

Statements of financial position as at:

	March 31, 2023		March 31, 2022	
	₦'000	₦'000	₦'000	₦'000
Assets				
Non-current assets				
Property, plant and equipment		14,000		10,700
Deferred development expenditure		1,000		-
Current assets				
Inventory	3,300		3,800	
Trade receivables	2,950		2,200	
Bank	50	6,300	1,300	7,300
Total assets		21,300		18,000
Equity and liabilities				
Equity				
Equity shares of ₦1 each		8,000		8,000
Revaluation reserve		1,350		-
Retained earnings		3,200		1,750
		12,550		9,750
Non-current liabilities				
8% loan notes	1,400		3,125	
Deferred tax	1,500		800	
Finance lease obligation	1,200	4,100	900	4,825
Current liabilities				
Finance lease obligation	750		600	
Trade payables	2,650		2,100	
Current tax payable	1,250	4,650	725	3,425
		21,300		18,000

Notes:

(i) On July 1, 2022, Kfour acquired additional plant under a finance lease that had a fair value of ₦1·5 million. On this date it also revalued its property upwards by ₦2 million and transferred ₦650,000 of the resulting revaluation reserve this created to deferred tax. There were no disposals of non-current assets during the period.

(ii) Depreciation of property, plant and equipment was ₦900,000 and amortisation of the deferred development expenditure was ₦200,000 for the year ended March 31, 2023.

Required

Prepare a statement of cash flows for KFour for the year ended March 31, 2023, in accordance with IAS 7 - *Statement of Cash Flows*, using the indirect method.

(20 marks)

QUESTION 3

a. The objective of IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations* specifies, amongst other things, accounting for and presentation and disclosure of discontinued operations.

Required

Define a discontinued operation and explain why the disclosure of such information is important to users of financial statement (6 marks)

b. Rasak's sole activity is the operation of hotels all over the world. After a period of declining profitability,

Rasak's directors made the following decisions during the year ended March 31, 2023:

i It disposed of all of its hotels in country A;

ii It refurbished all of its hotels in country B in order to target the holiday and tourism market. The previous target market in country B had been aimed at business clients.

Required

Treating the two decisions separately, explain whether they meet the criteria for being classified as discontinued operations in the financial statements for the year ended March, 2023 (6 marks)

c. At a board meeting on July 1, 2022, Yahaya's directors made the decision to close down one of its factories on March 31, 2023. The factory and its related plant would then be sold.

A formal plan was formulated, and the factory's 250 employees were given three months' notice of redundancy on January 1, 2023. Customers and suppliers were also informed of the closure at this date.

The directors of Yahaya have provided the following information:

Fifty of the employees would be retrained and deployed to other subsidiaries within the group at a cost of ₦125,000; the remainder will accept redundancy and be paid an average of ₦5,000 each.

Factory plant has a carrying amount of ₦2·2 million but is only expected to sell for ₦500,000 incurring ₦50,000 of selling costs; however, the factory itself is expected to sell for a profit of ₦1·2 million.

The company rents a number of machines under operating leases which have an average of three years to run after 31 March 2023. The present value of these future lease payments (rentals) at March 31, 2023 was
₦1 million; however, the lessor has said they will accept ₦850,000 which would be due for payment on 30 April 2023 for their cancellation as at March 31, 2023.

Penalty payments due to non-completion of supply contracts are estimated at ₦200,000.

Required

Explain and qualify how the closure of the factory should be treated in Yahaya's financial statements for the year ended March 31, 2023 (8 marks)

Note: The closure of the factory does not meet the criteria of a discounted operation.

(Total 20 marks)

Question 4

The following trial balance relates to Abiola at March 31, 2023:

	₦'000	₦'000
Equity shares of 50 cents each		50,000
Share premium		20,000
Retained earnings at April 1, 2022		11,200
Land and buildings – at cost (land ₦10 million)	60,000	
Plant and equipment – at cost	94,500	
Accumulated depreciation at April 1, 2022: – buildings		20,000
– plant and equipment		24,500
Inventory at March 31, 2023	43,700	
Trade receivables	42,200	
Bank		6,800
Deferred tax		6,200
Trade payables		35,100
Revenue		550,000
Cost of sales	411,500	
Distribution costs	21,500	
Administrative expenses	30,900	
Dividends paid	20,000	
Bank interest	700	1,200
Current tax	725,000	725,000

The following notes are relevant:

i. Revenue includes the sale of ₦10 million of maturing inventory made to Apede on October 1, 2022. The cost of the goods at the date of sale was ₦7 million and Abiola has an option to repurchase these goods at any time within three years of the sale at a price of ₦10 million plus accrued interest from the date of sale at 10% per annum. At March 31, 2023 the option had not been exercised, but it is highly likely that it will be before the date it lapses.

ii. Non-current assets:
On October 1, 2022, Abiola terminated the production of one of its product lines. From this date, the plant used to manufacture the product has been actively marketed at an advertised price of ₦4·2 million which is considered realistic. It is included in the trial balance at a cost of ₦9 million with accumulated depreciation (at April 1, 2022) of ₦5 million.

On April 1, 2022, the directors of Abiola decided that the financial statements would show an improved position if the land and buildings were revalued to market value. At that date, an independent valuer valued the land at
₦12 million and the buildings at ₦35 million and these valuations were accepted by the directors. The remaining life of the buildings at that date was 14 years. Abiola does **not** make a transfer to retained earnings for excess depreciation. Ignore deferred tax on the revaluation surplus.

Plant and equipment is depreciated at 20% per annum using the reducing balance method and time apportioned as appropriate.

All depreciation is charged to cost of sales, but none has yet been charged on any non-current asset for the year ended March 31, 2023.

iii. At March 31, 2023, a provision is required for directors' bonuses equal to 1% of revenue for the year.

iv. Abiola estimates that an income tax provision of ₦27·2 million is required for the year ended 31 March 2023 and at that date the liability to deferred tax is ₦9·4 million. The movement on deferred tax should be taken to profit or loss. The balance on current tax in the trial balance represents the under/over provision of the tax liability for the year ended March 31, 2022.

v. On July 1, 2022, Abiola made and recorded a fully subscribed rights issue of 1 for 4 at ₦1·20 each. immediately before this issue, the stock market value of Abiola's shares was ₦2 each.

Required

a. Prepare the statement of profit or loss and other comprehensive income for Abiola for the year ended March 31, 2023 (8 marks)

b. Prepare the statement of changes in equity for Abiola for the year ended March 31, 2023 (4 marks)

c. Prepare the statement of financial position of Abiola as at March 31, 2023 (8 marks)

Note: Notes to the financial statements are not required.

(Total 20 marks)

SECTION C: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION (30 MARKS)

QUESTION 5

a. Discuss the fundamental and enhancing qualitative characteristics of useful accounting information as defined in the IFRS Conceptual Framework for Financial Reporting. In your response, explain how each characteristic contributes to the overall usefulness of financial information for decision-making by users such as investors, creditors, and management. Provide examples to illustrate your points? (10marks)

b. **SeyKof** Limited is an Incorporated Company in Nigeria. Its last audited Statement of Profit or Loss is summarised below for the year ended December 31, 2024

	₦'000
Profit Before Tax	4,131
Taxation	(1,629)
Profit After Tax	2,502
Loss from Discontinued Operation	(252)
Profit for the year	2,250

Additional information:

i. At January 1, 2024 the Company's share capital was as follows:

	₦'000
12 million ordinary shares at ₦1	12,000
900,000 5% preference shares at ₦1	900
	12,900

ii. On April 1, 2024 the company issued new ordinary shares of 3 million at ₦1.50 each (which was the prevailing market price).

iii. The earnings per share for the year ended December 31, 2023 was 15kobo.

Abridged statement of changes in equity

Profit for the year		2,250
Dividend:		
Preference Dividend	45	
Ordinary Dividend	759	804
Retained profit for the year		1,446
Retained profit brought forward		5,266
		6.714

You are required to:

Calculate the earnings per share for the year ended December 31, 2024 (5 marks)

(Total 15 marks)

QUESTION 6

XeroCube Limited is a logistics company moving goods for some brewery companies, cement manufacturing companies, downstream oil and gas companies, beverage companies to mention a few, in Nigeria. It started operations 10 years ago. The business has grown over the years from a revenue of N2b per annum to N17.5b in 2024.

The company has been doing a lot of activities using manual approach. To cope with the level of growth in size, data (information), activities and revenue, the Board has directed the management to implement and adopt a robust financial accounting information system. As much as possible, the management wants to automate and digitise all the company's accounting processes.

You are required to:

a. Explain the importance of accounting information systems to XeroCube Ltd (5 marks)

b. Explain the key components of accounting information systems that the management of XeroCube Limited should focus on (5 marks)

a. Discuss two accounting software (ERP) and any two modules in it. (5 marks)

(Total 15 marks)

Question 7

The Financial Reporting Council (FRC) of Nigeria is one of the early adopters of the sustainability standards, issued by the International Sustainability Standard Board (ISSB). The FRC has, therefore, released a road map for reporting entities in Nigeria to incorporate sustainability report in their annual corporate reports. 7 marks

Required:

a. Discuss the integration of sustainability information into financial reporting in accordance with IFRS S1, and the potential challenges organisations may face in this integration?

b. Discuss strategies that organisations can adopt to overcome the challenges you discussed in (a) above. 3 marks

c. Discuss the key principles underpinning IFRS S1 on sustainability disclosure, and these principles contribute to the reliability and relevance of sustainability reports. Provide examples of how organisations can implement these principles in their reporting processes. 5 marks

Total 15 Marks

SUGGESTED SOLUTION

Section A
Solution 1

1 (a) **Victor: Consolidated goodwill on acquisition of Grace as at January 1, 2024**		
Investment at cost	**₦'000**	**₦'000**
Shares (10,000 x 90% x 2/3 x ₦6·50)		39,000
Deferred consideration (9,000 x ₦1·76/1·1)		14,400
Non-controlling interest (10,000 x 10% x ₦2·50)		2,500
Net assets (based on equity) of Grace as at 1 January2024 Equity shares		55,900
Retained earnings b/f at 1 October 2023	35,000	
Earnings 1 October 2023 to acquisition (6,200 x 3/12)	1,550	
Fair value adjustments: plant	1,800	
contingent liability recognised	(450)	
Net assets at date of acquisition		(47,900)
Consolidated goodwill		8,000

(b) **Victor: Consolidated income statement for the year ended 30 September 2012**	
	₦'000
Revenue (64,600 + (38,000 x 9/12) – 7,200 intra-group sales)	85,900
Cost of sales (working)	(64,250)
Gross profit	21,650
Distribution costs (1,600 + (1,800 x 9/12))	(2,950)
Administrative expenses (3,800 + (2,400 x 9/12) + 2,000 goodwill impairment)	(7,600)
Income from associate (2,000 x 40% based on underlying earnings)	800
Finance costs (420 + (14,400 x 10% x 9/12 re deferred consideration))	(1,500)
Profit before tax	10,400
Income tax expense (2,800 + (1,600 x 9/12))	(4,000)
Profit for the year	6,400
Profit for year attributable to: Equity holders of the parent	6,180
Non-controlling interest ((6,200 x 9/12) – 450 depreciation – 2,000 goodwill impairment) x 10%))	22
	6,400
Working in ₦'000 Cost of sales Victor	

	51,200
Grace (26,000 x 9/12)	19,500
Intra-group purchases (800 x 9 months)	(7,200)
URP in inventory (1,500 x 25/125)	300
Additional depreciation (1,800/3 years x 9/12)	450

b. Fair value adjustment to the carrying amount of a subsidiary's leased property is usually required where the property has been carried at depreciated historical cost. If it is already carried at a revalued amount, this should be broadly equal to its fair value and no adjustment would normally be required. The pre-acquisition increase should be reflected in the consolidated statement of financial position by including the subsidiary's leased property at its fair value, with the corresponding effect being a fair value adjustment in the calculation of consolidated goodwill. The adjustment has the effect of reducing the amount of the purchase consideration that is allocated to goodwill. The fair value of the leased property need not be reflected in the subsidiary's own entity financial statements, although sometimes this is done to make future consolidation simpler.

Where there is a post-acquisition increase in the value of a subsidiary's leased property, this may or may not be reflected in the consolidated financial statements, depending upon whether the group has a policy of carrying such properties at revalued amounts (current values). If it does, then the increase would be included in 'other comprehensive income' and the non-controlling interest would be shown to have a share of this. The other effect would be that there is likely to be an adjustment in the income statement for additional amortisation based on the increase in value. In the statement of financial position, the group's share of the post-acquisition increase would be added to the group's property revaluation reserve and the non-controlling interest's share of it would be added to the non-controlling interest's part of equity.

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SECTION B

Solution 2

Kfour – Statement of cash flows for the year ended March 31, 2013: (Figures in brackets are in ₦'000)

	₦'000	**₦'000**
Cash flows from Operating activities:		
Profit before tax		3,000
Adjustments for:		
depreciation of non-current assets	900	
amortisation of non-current assets	200	
finance costs	400	
		1500
decrease in inventories (3,800 – 3,300)	500	
increase in receivables (2,950 – 2,200)	-750	
increase in payables (2,650 – 2,100)	550	
		300
Cash generated from operations		**4,800**

Finance costs paid		-400
Income tax paid (w (i))		-425
Net cash from operating activities		**3,975**
Cash flows from investing activities:		
Purchase of property, plant and equipment (w (ii))	-700	
Deferred development expenditure (1,000 + 200)	-1200	
Net cash used in investing activities		**-1,900**
Cash flows from financing activities:		
Redemption of 8% loan notes (3,125 – 1,400)	-1,725	
Repayment of finance lease obligations (w (iii))	-1,050	
Equity dividend paid (w (iv))	-550	
Net cash used in financing activities		**-3,325**
Net decrease in cash and cash equivalents		**-1,250**
Cash and cash equivalents at beginning of period		**1,300**
Cash and cash equivalents at end of period		**50**

Workings

(i) Income tax paid

	₦'000
Provision b/f – current	-725
– deferred	-800
Tax charge	-1,000
Transfer from revaluation reserve	-650
Provision c/f – current	1,250
– deferred	1,500
Balance – cash paid	**-425**

(ii) Property, plant and equipment

Balance b/f	10,700
Revaluation	2,000
New finance lease	1,500
Depreciation	-900
Balance c/f (14,000)	
Balance – cash purchases	**-700**

(iii) Finance leases

Balances b/f – current	-600
– non-current	-900
New finance lease	-1,500
Balances c/f – current	750
non-current	1,200
Balance cash repayment	**-1,050**

SOLUTION 3

a. A discontinued operation is a component (see below) of an entity that has either already been disposed of or is classified as held for sale that represents a separate major line of business or geographical area of business operations (or is part of a co-ordinated plan to dispose of such). It also applies to a subsidiary that is acquired specifically with a view to resale.

A component of an entity has operations and cash flows that are clearly distinguished for reporting purposes from those of the rest of an entity. It would normally be a cash generating unit (or a group of cash generating units) or a subsidiary.

This information is important to users of financial statements when they are forming an assessment of the likely future performance of an entity. For example, if a group made a large profit from one of its subsidiaries that it has recently sold (or will soon sell), this will have a material effect on any forecast of the group's future profit. This is because the profits from the subsidiary disposed of will no longer contribute to future group profit (though the re-investment of any sale proceeds from the disposal could). Also, the converse would be true where the disposal or closure of a loss-making subsidiary could improve future profitability.

b. IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* has been criticised for the use of the term '*a separate major line of business or geographical area of business operations*' to identify a discontinued operation as it may mean different things to different people and lead to inconsistency (and thus a lack of comparability). Despite this, the disposal of hotels in country A would seem to represent a separate geographical location and should be treated as a discontinued operation, even though the group will continue to operate hotels in other countries. The example of country B is less

conclusive. Some might argue that a change in the target market (to holiday and tourism) does represent a different 'line of business operations' that has a different pricing structure, operating costs (such as providing 'all-inclusive' holidays) and profit margins than that of business clients. Also, the refurbishment of the hotels would seem to indicate catering to a different market. Others may argue that this is simply adapting a product (as all companies have to do) and does not represent a change to a separate line of business.

c. On its own, a board decision to close the factory is not sufficient to justify the creation of a provision under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. However, by formulating a plan and informing interested parties (employees, customers and suppliers), this is likely to constitute a constructive obligation for a restructuring provision by raising a valid expectation of the closure.

The amounts that should be provided for at March 31, 2023 are:

	₦'000
Redundancy (200 employess×5)	1,000
Impairment loss on plant (2,200-(500-50))	1,750 (may be shown as a separate provision)
Onerous contract (lower amount)	850
Penalty payment	200
	3800

(workings in brackets are in ₦'000)

The ₦3·8 million should be charged to the statement of profit or loss for the year ended 31 March 2023 and the same amount reported in the statement of financial position as at 31 March 2023 as a current liability/plant impairment (assuming all parts of the factory closure will be completed within the next 12 months).

The factory and the plant would be disclosed in the statement of financial position as non-current assets held for sale at the lower of their carrying amount (the factory) or fair value less cost to sell (the plant).

The ₦125,000 retraining costs cannot be provided for as they are part of future activities and the anticipated ₦1·2 million profit on the disposal of the factory cannot be recognised until it is realised. (20 marks)

SOLUTION 4

Abiola

Statement of profit or loss and other comprehensive income for the year ended March 31, 2023.

	₦'000	₦'000
Revenue (550,000 – 10,000 in substance loan)		540,000
Cost of sales		-420,600
Gross profit		**119,400**
Distribution costs		-21,500
Administrative expenses (30,900 + 5,400 re directors' bonus of 1% of sales made)		-36,300
Operating Profit		**61,600**
Finance costs (700 + 500 (10,000 x 10% x 6/12 re in substance loan))		-1,200
Profit before tax		**60,400**
Income tax expense (27,200 – 1,200 + (9,400 – 6,200) deferred tax)		-29,200
Profit for the year		**31,200**
Other comprehensive income		
Revaluation gain on land and buildings		7000
Total comprehensive income for the year		**38,200**

Statement of changes in equity for the year ended 31 March 2023

	Share capital	Share premium	Revaluation reserve	Retained earnings	Total equity
	₦'000	₦'000	₦'000	₦'000	₦'000
Balances at 1 April 2022	40,000	6,000	nil	11,200	57,200
Share issue	10,000	14,000			24,000

Total comprehensive income				7,000	31,200	38,200
Dividend paid					-20,000	-20,000
Balance c/f	**50,000**	**20,000**		**7,000**	**22,400**	**99,400**

The rights issue of 20 million shares (50,000/50 kobo each x 1/5) at ₦1·20 has been recorded as ₦10 million equity shares (20 million x ₦0·50) and ₦14 million share premium (20 million x (₦1·20 – ₦0·50)).

Statement of financial position as at March 31, 2023

Assets	**₦'000**	**₦'000**
Non-current assets		
Property, plant and equipment (44,500 + 52,800)		97,300
Current assets		
Inventory (43,700 + 7,000 re in substance loan)	50,700	
Trade receivables	42,200	92,900
Plant held for sale (w (ii))		3,600
Total assets		**193,800**
Equity and liabilities		
Equity (see (ii) above)		
Equity shares of 50 kobo each		50,000
Share premium	20,000	
Revaluation reserve	7,000	
Retained earnings	22,400	49,400
Total equity and liabilities		99,400
Non-current liabilities		
In substance loan from Apede (10,000 + 500 accrued interest)	10,500	
Deferred tax	9,400	19,900
Current liabilities		
Trade payables	35,100	
Income tax	27,200	
Accrued directors' bonus	5,400	
Bank overdraft	6,800	74,500
Total equity and liabilities		**193,800**

SECTION C

Solution 5

a. Fundamental and enhancing qualitative characteristics of useful accounting information

The IFRS Conceptual Framework for Financial Reporting identifies several qualitative characteristics crucial for the usefulness of accounting information. These characteristics are categorized into fundamental and enhancing qualities.

Fundamental qualitative characteristics (must have)

i **Relevance:**
Financial information must be relevant (Useful) to the decision-making needs of users. It should be able to influence decisions by providing insights into past, present, or future events. It must have confirmatory value, predictive value and material.

Example: A company's projected cash flows can influence investment decisions, as they provide relevant information about its potential future performance.

ii **Faithful Representation:**
Information should represent the economic phenomena it purports to represent faithfully. This requires that the information is complete, neutral, and free from error.

Example: A complete statement of financial position that includes all assets and liabilities presents a faithful representation of a company's financial position.

Enhancing Qualitative Characteristics (Optional)

iii **Comparability:**
Financial statements should be comparable over time and between entities, allowing stakeholders to assess trends and performances effectively.

Example: Comparing the revenue growth of two competing firms within the same industry helps investors make informed choices.

iv **Verifiability:**
Information should be verifiable, enabling independent observers to reach a consensus about the information's accuracy and authenticity.

Example: Audit reports that confirm financial statements have been prepared according to IFRS provide verifiable assurance to users.

v **Timeliness:**
Information should be provided in a timely manner to influence decision-making effectively.

Example: Quarterly earnings announcements enable investors to make timely decisions based on recent performance data.

vi **Understandability:**
Information should be presented clearly and concisely so that users can comprehend it easily. This may require avoiding excessive complexity and some technical accounting jargons.

Example: Simplified financial statements with clear heads and well-organized data are more useful to non-financial stakeholders.

b. **Seykof Limited**

2 Calculation of EPS for the year ended December 31, 2024

$$\text{EPS} = \frac{\text{Profit after Tax - Preference Dividend}}{\text{Weighted Average Number of Ordinary Shares}} \times \frac{100\ \text{Kobo}}{1}$$

(WANOS)

2,457	X	100 Kobo
14,250		1

EPS **17 Kobo**

Workings

WANOS	Shares ('000)	Shares ('000)	
01-Jan-24			12,000
01-Apr-24	(9/12 x 3,000)		2,250
Total			14,250

Solution 6

XeroCube Limited.

a. Importance of accounting information systems to XeroCube Ltd.

i **Improved accuracy:** Reduces human errors associated with manual accounting practices, ensuring reliable financial data.

ii **Timely reporting:** Automates financial reporting, enabling quicker access to critical financial information for decision-making.

iii **Enhanced data management:** centralizes financial data storage, making it easy to manage, retrieve, and analyse information.

iv **Regulatory compliance:** Helps maintain compliance with financial regulations and standards by providing accurate and timely reports.

v **Operational efficiency:** Streamlines financial processes, saving time and resources, leading to improved overall productivity.

b. Key components of accounting information systems for XeroCube Limited

i **People:** Individuals who interact with the AIS, including accountants, financial analysts, and IT personnel, ensuring the system meets operational needs.

ii **Processes:** Defined procedures for recording, processing, and reporting financial transactions, critical for maintaining consistency and accuracy.

iii **Data:** Financial information that the system captures and processes, including transaction details, ledgers, and financial statements, essential for effective analysis.

iv **Software:** Applications that automate accounting tasks, such as general ledger management, invoicing, and financial reporting, which form the backbone of the AIS.

v **Hardware:** Physical devices such as servers, workstations, and scanners used to operate the AIS and facilitate data entry and storage.

c. **Two Enterprise Resource Planning (ERP) accounting software and their modules**

i **SAP ERP:**

Financial Accounting (FI) Module: Manages all financial transactions and generates financial statements.

ii. **Controlling (CO) Module**: Provides tools for internal cost management and profitability analysis.

Oracle NetSuite:

iii. **Order Management Module**: Streamlines order processing from creation to fulfilment.

iv. **Finance Module**: Enables comprehensive financial management, including billing, revenue recognition, and reporting.

SOLUTION 7

a. Integration of sustainability information into financial reporting under IFRS S1:

IFRS S1 emphasises the need for organisations to integrate sustainability disclosures into their financial reporting framework. This integration fosters a holistic view of the organisation's performance by linking sustainability factors with financial outcomes. Key aspects of this integration include:

i Materiality: Organisations must assess which sustainability issues are material to their business and could affect the financial position or performance. This requires a thorough understanding of how sustainability issues interact with financial metrics.

ii Comprehensive reporting: Organisations should aim to include relevant sustainability metrics alongside traditional financial information, ensuring a cohesive narrative that connects sustainability efforts with value creation and risk management.

iii Consistency: The integration involves using consistent data and reporting formats across sustainability and financial reports, enhancing comparability and reliability.

iv Enhanced governance: Sustainable activities and their financial implications should fall under robust governance structures. The board must oversee sustainability strategies that align with the organisation's financial objectives.

Challenges in integration:

i Data availability and quality: Organisations often struggle with obtaining accurate, timely, and reliable sustainability data, which is essential for integration into financial reports.

ii Lack of expertise: Many organisations may lack the necessary expertise to understand and interpret sustainability issues within the context of their financial performance.

iii Complexity of reporting standards: Different frameworks and guidelines for sustainability reporting can lead to confusion and inconsistency in how organisations report.

iv Organisational resistance: Integrating sustainability into financial reporting may encounter resistance from stakeholders who prioritise traditional financial metrics.

Strategies to overcome challenges:

i Invest in data management systems: Implement robust data collection and management systems that can handle both sustainability and financial data, ensuring accuracy and reliability.

ii Training and capacity building: Organisations should invest in training for their staff to understand the implications of sustainability issues on financial performance, enhancing internal capacity for better integration.

iii Adopt best practices and frameworks: Organisations can adopt established frameworks (e.g., Global Reporting Initiative (GRI), Task Force on Climate-related Financial Disclosures (TCFD) that align with IFRS S1 requirements to ensure consistency and comparability in reporting.

iv Engage stakeholders: Continuous engagement with stakeholders can help organisations understand their expectations regarding sustainability and financial integration, fostering a culture of transparency and accountability.

v Establish clear governance structures: By establishing dedicated teams or committees that focus on sustainability and its financial impact, organisations can ensure that the integration process is taken seriously at the highest levels of governance.

b. Key principles underpinning IFRS S1:

i **Relevance**: Information should be relevant to the users' needs, helping them understand the impact of sustainability-related risks and opportunities on the organisation's value creation over time.

Implementation example: A manufacturing company can disclose its carbon emissions and the effectiveness of its initiatives to reduce them, which is relevant for stakeholders interested in understanding the company's commitment to combating climate change.

ii **Faithful representation**: Reports must accurately depict the organisation's sustainability performance and position. This includes complete, neutral, and free from material error information.

Implementation example: A retail company might disclose instances of supply chain disruptions due to environmental issues, presenting both the challenges and mitigation strategies it has implemented.

iii. **Comparability:** Organisations should report information in a way that allows stakeholders to compare sustainability performance over time and against peers.

Implementation example: A technology firm can adopt standardized metrics for reporting energy consumption across its global operations, facilitating comparisons with other firms in the same industry.

iv. **Verifiability:** Users should be able to verify the reported information, enhancing trust and confidence in the disclosures.

Implementation example: An organization could engage third-party auditors to review its sustainability reports and assure the accuracy of its data on waste reduction initiatives.

v. Timeliness: Information should be available in a timely manner to allow stakeholders to make informed decisions.

Implementation example: A financial services company could provide quarterly updates on its sustainability goals and progress, ensuring stakeholders have current data on its performance.

vi. **Understandability:** Information should be presented clearly and concisely to be easily understood by users.

Implementation example: A healthcare organisation could use visual aids, like graphs and charts, to present its patient care improvements related to sustainability initiatives, making complex data more accessible.

vii. **Contribution to reliability and relevance of sustainability reports:** By adhering to these key principles, organisations ensure that their sustainability disclosures accurately reflect their performance and strategic priorities, thereby enhancing stakeholder trust. Reliable and relevant information allows investors, regulators, and other stakeholders to assess risks associated with sustainability issues, which can have significant implications for financial performance.