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ICAG

INTEGRITY

The Institute of Chartered Accountants (Ghana)
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1.1 ICAG HOLDS ITS 52ND ANNUAL GENERAL MEETING

The Institute of Chartered Accountants, Ghana, has held its 52nd Annual General Meeting (AGM), to climax the 2016 Accountants' Week Celebration. The meeting which was well attended by members was held on the 29th of July, 2016 at the Labadi Beach Hotel. Some of the dignitaries who attended included Council members, former Council members, and past presidents. The meeting was to receive the accounts for the financial year 2015, and conduct other businesses which included election of new council members.

However, in the course of discussing the accounts, it was found out that there were some technical issues with the accounts and the way the auditor issued his report on the financial statements. The Council subsequently withdrew the accounts and promised to do all the corrections and resubmit it at a later date. The voting and election of new Council members however went on smoothly. In all fifteen persons contested for the seven positions at stake. The election, which was well coordinated was assisted by staff of the Ghana Audit Service, who were there to ensure that the processes of election are orderly, transparent, and free and fair.

1.2 ICAG ELECTS NEW MEMBERS TO THE COUNCIL

The ICAG at its 52nd Annual General Meeting, have elected new members to the Council, who will steer the affairs of the Institute from 2016 – 2018. The election was well organised and keenly contested. The results of the election were as follows:

<table>
<thead>
<tr>
<th>CONTESTANT</th>
<th>NO. OF VOTES</th>
<th>% OF VOTES</th>
<th>POSITION</th>
<th>REMARKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Dr. Williams Atuilik</td>
<td>497</td>
<td>12.61</td>
<td>1</td>
<td>Elected</td>
</tr>
<tr>
<td>2. Prof. K. Adom-Frimpong</td>
<td>426</td>
<td>10.81</td>
<td>2</td>
<td>Elected</td>
</tr>
<tr>
<td>3. Mr. Christian Sottie</td>
<td>398</td>
<td>10.10</td>
<td>3</td>
<td>Elected</td>
</tr>
<tr>
<td>4. Ms. Sena Dake</td>
<td>381</td>
<td>9.67</td>
<td>4</td>
<td>Elected</td>
</tr>
<tr>
<td>5. Mr. Kwasi Asante</td>
<td>360</td>
<td>9.14</td>
<td>5</td>
<td>Elected</td>
</tr>
<tr>
<td>6. Mr. K. Hemeng-Ntiamoah</td>
<td>306</td>
<td>7.77</td>
<td>6</td>
<td>Elected</td>
</tr>
<tr>
<td>7. Ms. Rebecca Atswei Lomo</td>
<td>299</td>
<td>7.59</td>
<td>7</td>
<td>Elected</td>
</tr>
<tr>
<td>8. Prof. Marfo-Yiadom</td>
<td>295</td>
<td>7.49</td>
<td>8</td>
<td>Not Elected</td>
</tr>
<tr>
<td>9. Mr. Robert Donaldy</td>
<td>228</td>
<td>5.79</td>
<td>9</td>
<td>Not Elected</td>
</tr>
<tr>
<td>10. Mr. Michael Asiedu-Antwi</td>
<td>206</td>
<td>5.23</td>
<td>10</td>
<td>Not Elected</td>
</tr>
<tr>
<td>11. Dr. K. Antwi-Boasiako</td>
<td>171</td>
<td>4.34</td>
<td>11</td>
<td>Not Elected</td>
</tr>
<tr>
<td>12. Ms. Frances Sosoo</td>
<td>159</td>
<td>4.04</td>
<td>12</td>
<td>Not Elected</td>
</tr>
<tr>
<td>13. Mr. Nii Akwei Tetteh</td>
<td>100</td>
<td>2.54</td>
<td>13</td>
<td>Not Elected</td>
</tr>
<tr>
<td>14. Mr. Prince Yaw Essah</td>
<td>91</td>
<td>2.31</td>
<td>14</td>
<td>Not Elected</td>
</tr>
<tr>
<td>15. Mr. Dick Gordon Anaman</td>
<td>23</td>
<td>0.58</td>
<td>15</td>
<td>Not Elected</td>
</tr>
</tbody>
</table>
In line with the Chartered Accountants Act 1963, Act 170, the first seven persons with the highest votes were elected to serve as Council members for 2016 to 2018. Other nominees from the government were:

1. Mr. Kwasi Gyimah-Asante – a Commissioner at the Ghana Revenue Authority (GRA) representing GRA.
2. Mr. Richard Q. Quartey – the Auditor General at the Ghana Audit Service representing the Audit Service.
3. Mr. Seidu Kotomah – the Ag. Controller and Accountant General at the Controller and Accountant General's Department (CAGD) representing the CAGD.

The fourth person is yet to be nominated by the government as required by the Chartered Accountants Act.

1.3 ICAG HOLDS PRESIDENTIAL LUNCHEON FOR 2016

The president of the Institute of Chartered Accountants, Ghana (ICAG), Mr. Christian Sottie, has stressed the need for accountants to uphold the ethics of their profession, as failure to do so will be a disservice to the nation in the fight against corruption. He further stressed that the rot and indiscipline in our society require that we place emphasis on a set of professional knowledge, skills, values, ethics, and attitudes, broad enough to adapt to the dynamics in the business environment. Mr. Sottie made these remarks when he was delivering his welcome address at the 2016 Presidential Luncheon at the Movenpick Ambassador Hotel in Accra on the 9th of September, 2016.

The President of ICAG indicated that as custodians and keepers of the nation's wealth, accountants cannot afford to disappoint the citizenry. Held under the theme 'Effective Governance in Organisations: the Role of the Chartered Accountant', the event brought together a sizable number of professional accountants to interact with their employers, clients, and colleagues in a congenial atmosphere. Mr. Sottie said it was imperative that accountants helped stamp out corruption in the society using their offices, by strictly adhering to the ethics of the profession, without compromising their integrity.

He further advised that accountants should guard against all manner of abuses capable of leading to corporate scandals and financial malfeasances that could threaten corporate relationships. Mr. Sottie admonished accountants to broaden their knowledge and global outlook in order to understand the context in which businesses and organisations operated internationally. He indicated that as the world moves towards global market economies with investments and operations crossing borders to an ever greater extent, it is imperative that accountants enhance their expertise to be relevant always.

The Chief Justice of Ghana, Mrs. Georgina Theodora Wood, who was the guest of honour, for the occasion, underscored the importance of team work, stressing that team work is required to efficiently run any organisation. She noted that the technical, operational, managerial staff, and the board of organisations should cooperate and promote team work and good governance in their respective institutions to ensure transparency, accountability, integrity, and avoid corporate failure which is as a result of poor corporate governance.

The main speaker for the occasion, Nii Adumansa-Baidoo, who was a former Chief Executive of the Ghana Civil Aviation Authority, and the current Chief Executive of NABS Business Consulting, observed in his presentation that, some people in top positions sacrifice the broader corporate objectives of their organisations for their personal gains.
According to him, such attitude endanger the growth of institutions and render them ineffective and unproductive. He therefore reminded accountants of their role in ensuring good governance, stressing that they should justify the commitment of both board and management to excellent customer service through written disclosures like value added statements. Nii Adumansa-Baidoo stressed that accountants must assist management to implement the policies timeously through strategic planning and budgeting. He indicated that the best practice requires that all the processes should involve the board, management, and employees to achieve organisational goals.
2.0 OVERVIEW OF IPSAS ADOPTION IN GHANA

INTRODUCTION

The last few years have seen dramatic developments and changes on the International Accounting Standards setting scene. Along with this has come a rapid adoption of International Accounting Standards in a number of countries, which previously had their own national standards. International Public Sector Accounting Standards (IPSAS) are now virtually accepted as the common yardstick for international reporting in the public sector. Acceptance and use of IPSAS are becoming a global phenomenon, and there is increasing demand for public accountability and transparency by all stakeholders in the Public Sector. Frequent revelations during the Public Accounts Committee (PAC) hearing on the Auditor General's reports raise issues of financial accountability and transparency. Most of the financial reporting models used in the public sector could not achieve the desired results because they were not premised on well-defined accounting standards and basis. For example, in Ghana, the Financial Administration Act makes reference to the use of Generally Accepted Accounting Principles (GAAP) as the applicable accounting standards and the Accrual accounting as the applicable basis. Unfortunately however, GAAP is vague and does not refer to any set of standards while the existing data capturing framework does not lend itself to accrual accounting. Clearly, there is the need to adopt a set of globally acceptable accounting standards (in this case the IPSAS) and evolve a data capturing system that will put values on revenue, expense, assets and liabilities [REAL] so as to provide a basis for accrual accounting.

Adoption of IPSAS in Ghana

Ghana adopted Accrual Basis IPSASs as the financial reporting framework for all public sector entities in October 2014. Ministry of Finance (MoF) and Controller and Accountant General's Department (CAGD) [supported by ICAG] encouraged all Public Sector Entities to work towards full adoption of accrual–based IPSAS by 2019.

What is IPSAS?

IPSASs are a set of accounting standards issued by the IPSAS Board to improve the quality of general purpose financial reporting by public sector entities, UN system organizations, governments and other non-profit organizations. These standards, used by public sector entities around the world, and based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), lead to better informed assessments of resource allocation decisions, thereby increasing transparency and accountability.

IPSAS setting Process

The International Public Sector Accounting Standards Board (IPSASB) is required to be transparent in its activities, and in developing IPSASs to adhere to due process. The due process involves:
- IPSASB may also issue a Consultation Paper prior to the development of an exposure draft.
- The IPSASB issues exposure drafts of all proposed IPSASs for public comment.
- The IPSASB considers all comments received on Consultation Papers and exposure drafts in developing an IPSAS.
• The IPSASB cooperates with national standard setters in preparing and issuing IPSASs to the extent possible.
• It also promotes the endorsement of IPSASs by national standard setters and other authoritative bodies and encourages consultation with users, including elected and appointed representatives; Treasuries, Ministries of Finance and similar authoritative bodies; and practitioners throughout the world to identify user needs for new standards and guidance.

Version of IPSAS
There are two versions of IPSAS
• Cash Basis IPSAS
• Accrual Basis IPSAS

Debate for Ghana
What should Ghana do?
• Move back from the current Modified Accruals basis of accounting (which is not acceptable basis) to the Cash Basis IPSAS.
• Build on the Modified Accruals basis to achieve the full accrual IPSAS.

Proposition from Development Partners

The Development Partners (World Bank particularly) have advised Government of Ghana, in their implementation support mission aide memoire (Oct/Nov 2013) as follows: “In the mission’s view, the focus should be to comply with the cash basis standard (with inclusion of third party transactions, definition of entity, and consolidation), while transitioning to full accrual basis. The CAGD/MoF should add accrual features as warranted by need and capacity (as is currently being done) and move toward IPSAS accrual at a pace that meets its fiscal needs. The CAGD is currently preparing its financial statements on a form of modified accrual basis which, though not an international standard by itself, is a well-recognized way of moving to a full accrual”.

Proposition from Chairman of IPSASB

Chairman of the IPSASB states: “…for many countries and entities the cash basis standard is not a feasible stepping stone, as they are already on a modified accrual basis of accounting. They have statements of financial position, financial performance and a statement of cash flow in place. They account for their assets and liabilities. The IT systems in place are fully fledged ERP systems. However, they may experience shortcomings in the field of consolidation or other areas such as provisions or employee benefits. Why should such countries or entities first be sent back to a cash basis on the way to full accrual? This may be considered as not only patronising, but also quite inefficient. This issue is often captured by the term sequencing. In such cases it is suggested to adopt full accrual accounting directly, in a project with a step-by-step approach.”

Proposition of Ghana Public Financial Management (PFM) Laws

Regulation 186 of the Financial Administration Regulations, 2004 (L. I. 1802) provides that the accrual basis shall generally be applied in preparing the financial statements of public sector institutions in Ghana. Section 40(1) of the Financial Administration Act 2003 (Act 654) requires the Controller & Accountant General to prepare monthly financial statements to comprise:
A Balance Sheet showing the assets and liabilities of the Consolidated Fund as at the end of the month; A Statement of Revenue and Expenditure of the Consolidated Fund for the month; Cash Flow Statement of the Consolidated Fund for the month; and Notes that form part of the accounts. Section 41 of Act 654 requires two different categories of annual financial statements: one set from each Ministries, Departments and Agencies (MDAs), and the other set from the Controller & Accountant General similar to the statements listed in S 40.

Recommendation of IPSASs Implementation Working Group (IWG)

The Government of Ghana should implement accrual basis IPSAS as opposed to cash basis IPSAS for the following reasons:

- The PFM laws of Ghana require accrual basis financial statements;
- The current framework for reporting by Government of Ghana (GoG) has been developed to a state far beyond the reporting requirements of cash basis IPSAS.
- Implementing cash basis IPSAS will amount to rewinding the clock of progress with respect to financial reporting.
- The on-going implementation of Ghana Integrated Financial Management Information Systems (GIFMIS) will provide a solid platform and facilitate the smooth implementation of accrual basis IPSAS.

Accrual-Based IPSAS- The Preferred Choice

- Provides better information which enables users to assess the true and fair view of performance, financial position and cash flows of Public Sector Entities (PSEs);
- Demonstrates accountability for use of all resources and management of all assets and liabilities;
- It shows how a PSE finances its activities and meets its liabilities and commitments;
- Requires a PSE to maintain complete records of assets and liabilities which are necessary for effective management of assets and liabilities;
- Availability of records on liabilities will help a PSE to keep track of its commitments and debt levels and avoid indebtedness surprises.

Accrual basis/Full IPSAS

Focuses on revenue, cost, assets, liability and equity, instead of cash flow only. It is on accrual basis which is in line with IFRS.

IPSAS Benefits

The implementation of IPSAS would result in the following key benefits:

- Strengthened accountability towards all stakeholders;
- Strengthened support for results-based management through the provision of comprehensive information on costs;
- Improved management and planning across the Joint Programme due to better accounting practices for income and expenditure;
• Better understanding of revenue and expenses and improved management of commitments, risks and uncertainties;
• Increased transparency and harmonization of financial reports and statements across the PFM system;
• Enhanced prediction of future asset and cash-flow needs; and
• Adherence to the highest international standards of financial reporting—aligned with best practices—that allow for improved consistency and comparability.

**Objectives/benefits of adopting IPSAS**

• To enhance transparency and accountability of financial reporting in the public sector.
• To improve the decision usefulness of financial information in the public sector.
• To ensure comparability of financial statements across different organisations and countries.
• To ensure better measurement of the performance of public sector entities in terms of cost of services, efficiency and accomplishment.
• To improve access to financing in the capital market through bond issues.

**Reasons for the adoption of IPSAS in developing countries**

Many countries have adopted the IPSAS for the following reasons:
• In order to improve the quality of general purpose financial statement.
• So as to enhance transparency and accountability in public financial management as indicator of good governance.
• To conform to international trend.
• So as to comply with regional grouping requirements e.g. AU, EU, etc.
• Donor pressure as a requirement for borrowing, e.g. World Bank, IMF etc.

**Factors facilitating smooth adoption of IPSAS**

• Consultation and acceptance by the Reporting Entity
• Support and oversight by senior management
• Robust audit process
• Comprehensive management training
• Appropriate cultural approach
• Awareness and willingness of staff to adopt change and adapt to the timelines
• IT capacity implementation
• Accrual-based approach by identifying best practices and developing policies and processes to support IPSAS
3.0 HOW TO TACKLE 5 OF THE TOUGHEST INTERVIEW QUESTIONS

After weeks or months of applying for jobs and networking, landing an interview can feel like winning the lottery. But while you might be tempted to pop the champagne, this is the moment where the real work begins. The interview process has definitely evolved over the years. There are video interviews, panel interviews, group interviews, case interviews…the list goes on. Some interviews clock in under 30 minutes. Others last all day. But one thing you can count on is that you'll likely get asked at least one of these notoriously tough questions. Let's take a look at what motivates employers to ask these questions and the best way to approach them.

**Tough Interview Question #1 - Why Are You Leaving Your Current Employer?**

This seemingly innocent question can be a potential minefield for candidates. Employers ask it to get a sense of what your current grievances are and why you might leave them down the road. If you seem like a job hopper or difficult to please, this could be a red flag. First of all, never, ever trash-talk your current company, supervisor or position. It might be tempting to “vent” your frustrations with your current situation as a way of demonstrating your interest in this opportunity, but this approach will only backfire. Instead, stay positive, and talk about your desire to gain new skills, take on new challenges, etc. It's best to frame it as taking the next step forward in your career, versus freeing yourself from your current situation.

**Tough Interview Question #2 - What Do You Consider Your Greatest Weakness?**

Most dreaded interview question ever!! What employers are really looking for is self-awareness. They know we all (they themselves) have weaknesses, so the worst thing you can say is “I don't have any.” Other answers to avoid are “I work too hard” or “I'm a perfectionist.” So what's the best way to respond? A wise approach is to mention something that you're working on — that you're aware is not your strong suit and that you've been taking measures to improve upon. Maybe it's a certain technology, or contributing in meetings, or delegating.

You want to show them that, historically, this is something that has been a struggle for you, but you've been taking steps to remedy it. You might not be there yet, but you've made substantial progress. This way they know you're dedicated to self-improvement and aren't living in denial about it. One thing to note, if the skill set you consider a weakness is something that's absolutely essential to the job, you probably aren't the right fit for the position and should move on in your search.

**Tough Interview Question #3 - Tell Me About a Time When You Made a Mistake**

Similar to the weakness question, you don't want to say that you never make mistakes. Employers know that everyone makes mistakes from time to time. What they care about is how you handle them — how you correct them and move forward. When answering this question, you'll want to break it into three parts. First, clearly explain the mistake you made. Don't try and downplay it or deny culpability. Calmly own it. Next, walk them through the steps you took to correct it. And lastly, talk about how making that mistake taught you a lesson — maybe it led to changing a process or procedure, asking a colleague to be a second set of eyes on something, or triple-checking an important email before hitting send. Whatever it is, you want to demonstrate that you're now a better professional for it.

Note: when choosing the mistake to talk about it, it should probably be about a 5 on the scale of 1 (completely benign) to 10 (landed you in jail).
Tough Interview Question #4 - Tell me About a Time When You Had a Conflict with a Colleague or Supervisor

This question can be a doozy but it actually has similar components to the mistake question. Employers are trying to get a sense of how you act in the face of conflict. Because let's be honest, no work environment is 100% conflict free. There are different personality types and communication styles at play, and sometimes things can get, well-tensed.

In answering this question, be very careful not to blame, bash or complain. You definitely don't want to throw a coworker or boss under the bus, or the interviewer might think you'll eventually do the same to them. In thinking through the situation, ask yourself — was it perhaps a misunderstanding? Or maybe a difference in opinion or work style? Make sure to take some of the blame for the conflict. Employers know there are two sides to every story!

You also may want to employ the Experience, Learn, Grow model. Similar to the mistake question, the goal is to calmly and truthfully explain what you experienced, what you learned from the experience, and how you grew as a professional. Find a way to end it on a positive note, and you'll put the interviewer at ease.

Tough Interview Question #5 - We Have Several Qualified Candidates for This Position. Why Should We Hire You?

This question is exactly what it sounds like. The interviewer is looking for a sales pitch. They're essentially asking you to make their job easier by having you convince them you're the right candidate. And, of course, you have no idea what these other candidates bring to the table. So you can only demonstrate what you bring. This is where your understanding of the position and the department's biggest pain points comes into play. They need to hire a problem solver who will tackle their most urgent problems as efficiently and effectively as possible. So this is no time to speak in vague generalities or only focus on how “passionate” you are about the industry. Instead, give concrete examples of how you were successful in solving similar problems in the past.

The best way to frame your answer is using the 'PAR' model - Problem, Action, Result. Describe a concrete problem similar to what they're facing. Then, walk them through the specific actions you took to solve that problem. Finally, show them the result in terms of metrics, if at all possible. Maybe you increased sales by 20% or reduced redundant processes by 35%. This form of storytelling gives the interviewer a visual they can remember you by. And when it's time to make a decision, you stand out as a top candidate. As you can see, these challenging interview questions are nothing to sneeze at. But if you anticipate them and do your homework in advance, you'll walk in relaxed and ready to take on anything they throw your way.
4.0 THE 7 JOB SEARCH MISTAKES YOU MIGHT BE MAKING ….. AND WHAT TO DO INSTEAD

Introduction

Let's face it...a job search can be cause for major frustration. Job seekers often feel like their hunt is going nowhere fast. But it's helpful to remember there are some key job-search do's and don'ts that can make the difference between landing an amazing job quickly versus having your search drag on and on. Below I've listed 7 mistakes that job seekers are most guilty of. If any of these sound like you, not to worry! I've also discussed the best strategies to move things in the right direction. So, without further ado, here they are:

Mistake #1 - Jumping Into a Job Search without a Plan.

Sometimes you feel so desperate to get out of your current work situation that you'll take practically anything. So in an effort to be “efficient,” you quickly dust off your resume and start applying for jobs immediately. But this is recipe for disaster. If you don't take the time to fully assess what you don't like about your current job and what you want your next job to look like, you run the risk of getting into another position that's all wrong.

What To Do Instead

- Before embarking on a job search, you owe it to yourself to fully assess your career interests, interaction style, top skills sets and values. There are some great free assessment tools on truity.com.
- Take an honest look at exactly what you find unsatisfying about your current job and how you want your next position to be different. What problems would you like to solve? What kind of environment would you like to spend 8+ hours a day in?
- Want to make sure a specific career is the right fit for you? O*NET Online (www.onetonline.org) is a great resource for researching careers. It provides lots of valuable information, including: work activities, salary, skills needed and future outlook.
- Once you've done a full assessment, start working on a couple versions of a personal branding statement. A branding statement can include your general title, problems you love solving, unique skill sets you possess, methodologies you utilize, industries you work in, 5-year goals, etc.

Mistake #2 - Sending a Resume That Won't Make it Through the Applicant Tracking System

The good news is, the internet has made it quick and easy to apply for jobs. The bad news is, as a result, recruiters are receiving hundreds of applications for each position. What's an overwhelmed recruiter to do? Use an applicant tracking system (ATS). This program screens, parses and ranks online applications based on predetermined keywords, tossing out up to 80% of resumes. And depending on how old the system is, your resume could be screened out for basic formatting issues, like underlining words or using tables.
What to Do Instead

First, make sure your resume is keyword optimized based on the job description. How do you do this? Read the job description like a love letter and determine 8-12 hard skills that are required. Examples of hard skills are: project management, copyediting, event planning, web design, data analysis, etc. Hard skills can also be technologies: Photoshop, QuickBooks, FilemakerPro, etc. (This is in contrast to soft skills like “detail oriented,” “good communicator,” or “team-player.”) You can also paste the job description into a word cloud tool like wordle.net to determine the most frequently-used hard skills. In formatting your resume, less is more. Make it clean and easy to read with lots of white space. This means you can go beyond a one-page resume.

Font size should be 11 or 12 point — no smaller.

- Use simple, clean fonts (non-scripted): Arial, Tahoma, Helvetica, Calibri, Verdana, etc.
- Don't use abbreviations. (Administrative Assistant not Admin Asst)
- Spell out less-common acronyms. (When in doubt, spell it out.)
- Use a space between slashes, i.e. Writer / Editor (not Writer/Editor). Otherwise the ATS sees it as one word.
- No headers, footers, text boxes, tables, images, shading, fancy bullet points, or accent marks.
- Lines are okay as long as they don't touch text.
- Bold and italicized are okay, but not underlining (because it touches the text). Lastly, do a final proofread for typos and then hand your resume, along with the job description, to a friend or career coach to take a look at.

Mistake #3 - Not Taking Advantage of the Power of LinkedIn

When LinkedIn first got popular, many people threw up a half-completed profile, sent invites to a handful of friends, and called it a day. But as a job seeker today, LinkedIn is your #1 online tool. Why? Recruiters aren't sitting around waiting to see who'll apply for their open positions. They're being proactive and looking for you! Often times recruiters aren't even posting jobs — they're looking to their network first. Whether they use the official LinkedIn Recruiter platform or not, they're doing keyword searches by job title, skill set and location to find qualified candidates. If your profile isn't fully optimized, or if you don't have a profile yet, you are missing out on a golden opportunity to be found on LinkedIn.

What To Do Instead

LinkedIn is basically one big search engine for professionals. So there are several things you can do to boost your SEO (search engine optimization).

- Have a professional-looking, smiling, well-lit photo, taken from the shoulders up. Profiles with a photo are 7 times more likely to be viewed by recruiters.
- Make sure all the main profile sections are complete: Headline, Summary, Experience, Skills & Endorsements and Education.
- Based on the job titles you're most likely to be searched for, make sure to populate the most relevant 10-15 hard skills throughout each section.
In terms of number of connections, the magic number is 500+. Hitting this mark will allow you to rank higher in search results. You can use tools like inviteswelcome.com and toplinked.com to quickly grow your numbers.

Mistake #4 - Using Applying Online As Your Only Job Search Strategy

So you've got your resume, cover letter and LinkedIn profile all ready to go. Now it's time to go online and apply for hundreds of jobs, right? I mean, isn't it a numbers game? Sadly, no. It's really a specificity game. Referrals are still the number one way people get jobs, and more than half of jobs are NOT posted. So if you're just applying online, you're likely missing out on the hidden job market.

What To Do Instead

After doing a full career assessment (see Mistake #1), the best strategy is to target 10-15 companies in your area that are in alignment with the work you want to do. It makes a big difference if you're genuinely excited about the company's mission and work environment. It's okay if they don't have an opening for your position at the moment. Building relationships at these companies is the next key step. The best way to build these relationships is through LinkedIn. Do a search on a company and see if you have any 1st-degree connections. If not, go for a 2nd-degree connection and see if the connection you have in common can introduce you. If you don't have any 1st or 2nd-degree connections at any of your dream companies, look at the profiles of employees within the department you'd be working in and see if they belong to any LinkedIn Groups. (You can find their Groups at the bottom of their profile.) Join those Groups, if you can, and send the employees a personalized message expressing your interest in the company and the work they do. Building these relationships can lead to an informational interview and then hopefully...to a referral.

Mistake #5 - Not Using Other Social Media in Your Job Search

Think LinkedIn is your only social media tool as a job seeker? Think again. Recruiters are also using Facebook and Twitter to post jobs and look for candidates. (I recently heard an interview with a recruiter who tweeted a job opening and got it filled without ever posting it elsewhere.) As these platforms have expanded their summary areas, job seekers can brand themselves as industry experts and be found by recruiters, just like on LinkedIn. And with Facebook and Twitter being more interactive, it's easier to engage with recruiters and other employees on company social media pages. Job seekers forget that they can post content that will help them in their job search. And, more importantly, they don't realize some of what they're posting is actually HURTING them.

What To Do Instead

- In Facebook, fill out the work section of your profile including company name, title, location and description. You can also add a chain of professional skills. Make both sections public. This allows recruiters to find you through keywords searches.

- While your Twitter profile doesn't have a work section like Facebook, it's crucial to take advantage of the bio-data section. You have 160 characters to brand yourself. Make sure to include your title as well as keywords that recruiters would likely use to search you. (You can always change your bio-data back to something more fun after your job search is over.)
• On both platforms, share relevant, industry-related articles with a short commentary. This will brand you as a subject-matter expert. (Make these posts public on Facebook.)

• Follow your target companies and like, retweet and comment on their posts.

• Check company social media pages regularly for job announcements. Often times they're posted on these pages before they show up on the company careers page.

• Recruiters will be checking out your social media pages, so watch what you tweet and post! Avoid inappropriate or offensive photos or language. You don't want to be that boy or girl who is constantly ranting, making controversial comments, or posting photos of winning the keg stand championship at your local dive bar.

Mistake #6 - Thinking You Can Wing It in an Interview
After months of fruitless job hunting, it's understandable you're thrilled to get an interview. You feel like you've won a prize! So it's easy to think you just need to saunter your way to the finish line. But this couldn't be further from the truth. Interviews are far and away the most critical aspect of the job search process. Why? Your resume, cover letter and LinkedIn profile can only tell so much about you. Employers need to see how you communicate your value to the company. Even if you've been referred by an employee, they're likely sizing you up against several other candidates. This is no time to wing it!

What To Do Instead
Make sure you're ultra-prepared for most common interview questions. Here are a handful:

• Tell me about yourself.

• What attracted you to our company? (Why us versus our competitor?)

• Based on the job description, what skills and experience do you have that qualify you for the position?

• What are your strengths/weaknesses?

• We have lots of qualified candidates. What makes you different?

• Tell me about a time when you... made a difficult decision. ...oversaw a project from start to finish. ...made a mistake. ...had a conflict with a colleague or supervisor. The best way to answer behavioral interview questions (the “tell me about a time when…” ones) is by using the PAR format - Problem, Action, Result. “This was the problem I encountered. This was the action I took. And this was the (positive) result.” You'll want to write out your answers, rehearse them in front of a mirror, and use a timer. Answers should take no more than 2 minutes, and most questions can be answered in a lot less time. Think about the most clear, concise and organized way to answer it...and then practice, practice, practice.

Mistake #7 - Thinking Your Job Search is All About You
When you're in the midst of ongoing job search, it's easy to get laser-focused on what you want and what you deserve. At the end of a day, you want a great job and you want it as soon as possible, right? And yes, in the first stages of a job search, it's crucial to get very clear on what your dream job looks like. But as you progress through your search, it's easy to fall into the trap of unconsciously communicating to employers, “I want this dang job! Pick me, pick me!” Sadly, employers smell neediness a mile away.
What To Do Instead

An important shift happens when you instead put your focus on how you can use your unique skills and experience to best serve the company's needs. Think about it — when there's a job opening, it's usually because someone either quit, got fired, or it's a new position because of increased business. Regardless of the reason, there's work piling up. You might look at a job opening and think, “What's in it for me?” But instead think, “How can I help this department be successful?” Top candidates are problem solvers. They research and anticipate the needs of the company and demonstrate how they're uniquely qualified to address them — in their resume, cover letter, LinkedIn profile, and interviews. I know it sounds cheesy, but think of yourself as a superhero who is flying in to save the day. You don't have to sound like a cocky know-it-all. Instead, exude relaxed self-assuredness, present helpful solutions, and show them you're the guy or gal to make everything ok.

Conclusion

So there you have it, the 7 most common job search mistakes as well as helpful ways to fix them. While a job hunt can be daunting, implementing these strategies can take you several steps closer to landing a job you love.
5.0 RELEVANCE OF COVER LETTER TO YOUR RESUME (CV) WHEN APPLYING FOR A JOB

I think we all secretly wish the cover letter would die a quick (and painful) death already. I mean, is there anything more tedious to write? And do recruiters even read these things? Well…the answer isn't so cut and dry. While it's true that many recruiters don't read cover letters, what's really happening is that they're glancing at them, seeing that they're just generic form letters, and moving on.

So whether you're applying for a job online or having a referral pass along your application, a well-crafted, tailored cover letter can really set you apart from the competition (especially from the candidates who don't even bother to include one). So before you dismiss this handy dandy marketing tool, here are the reasons it's not going away anytime soon:

**Reason #1 - A Cover Letter Demonstrates Your Unique Interest in the Company**

Employers want to know you're interested in working for them specifically, not just anyone. When I worked as a recruiter, I remember seeing countless cover letters that were obviously form letters. You could tell the only thing candidates changed was the position title and company. And sometimes they forgot to change those! These candidates made it obvious they were randomly firing off hundreds of resumes a week. Let's just say it was hard to take these candidates seriously.

A better game plan is to use the first paragraph of your cover letter to express your genuine interest in the company you're applying for. A great opener can be congratulating them on a recent award, new product or service, or other noteworthy piece of news. To get ideas, look on their website, Twitter feed, Facebook and LinkedIn pages. Google them to see if they've been mentioned in any industry blogs or other news sources. And if you use (and love) their product or service, let them know!

**Reason #2 - A Cover Letter Showcases Your Fit for the Position**

Think of your cover letter as a bridge between your resume and the job description. Employers create a job description to describe their pain points and list the skills and experience required to solve these problems. So the best course of action is to use the job description as a roadmap in composing your cover letter.

> Choose the 3-4 most salient job requirements and write accomplishment statements that demonstrate your expertise in these areas. Accomplishment statements can be written in the action/result format, for example: “Revamped social media marketing campaign, increasing sales by 20%.” Or result/action: “Cut administrative costs 15% by implementing new calendar management software.”

> Avoid copying anything verbatim from your resume. Instead, rephrase a bullet point or two, adding additional context.

> Lastly, make sure your cover letter contains as many relevant keywords from the job description as possible.

The goal is to demonstrate that you have fully read the job description and have a clear understanding of what is required — and then to showcase your relevant skills and experience so that it's a no-brainer you're the right person to solve their problems.
It goes without saying that you need to create a different cover letter for each job you apply to. If you're using virtually the same letter for multiple jobs, it's a clear indicator you're not doing enough tailoring to the job description. But don't fret, once you get a few of these under your belt, you'll be a tailoring whiz!

**Reason #3 - A Cover Letter Serves as a Writing Sample**

Business writing skills are critical these days, regardless of your industry. And while it's easy to have your resume written by a professional resume writer, employers know you're likely writing your own cover letter. (As well you should!) Therefore, they're using this document to gauge your writing abilities. If your cover letter is riddled with typos, spelling errors or poor grammar, you're likely to land in the “no” pile. Also, make sure your cover letter isn't longwinded or unfocused. Three to four brief paragraphs of clear, organized writing is ideal. It's crucial to proofread it several times for errors and lack of clarity. Better yet, give it to a friend or career coach to take a final look.

So...while you might have wanted to give the cover letter the death sentence, remember, this marketing document can be your friend. Make it your ticket to standing out as top talent. If you're applying for a job you're excited about at a company that inspires you, it practically writes itself. (Conversely, if you're not feeling excited, that might be a sign it's not the right job or company.) Remember to use the job description as your guidepost, so you can stay focused and on point. Happy writing, my friends!
6.0 OVERVIEW OF IAS 17: LEASE ACCOUNTING

Introduction

IAS 17 Leases prescribes the accounting policies and disclosures applicable to leases, both for lessees and lessors. Leases are required to be classified as either finance leases (which transfer substantially all the risks and rewards of ownership, and give rise to asset and liability recognition by the lessee and a receivable by the lessor) and operating leases (which result in expense recognition by the lessee, with the asset remaining recognised by the lessor). IAS 17 was reissued in December 2003 and applies to annual periods beginning on or after 1 January 2005. IAS 17 will be superseded by IFRS 16 Leases as of 1 January 2019.

Objective of IAS 17

The objective of IAS 17 (1997) is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to finance and operating leases.

Scope

IAS 17 applies to all leases other than lease agreements for minerals, oil, natural gas, and similar regenerative resources and licensing agreements for films, videos, plays, manuscripts, patents, copyrights, and similar items. [IAS 17.2]. However, IAS 17 does not apply as the basis of measurement for the following leased assets: [IAS 17.2]

- property held by lessees that is accounted for as investment property for which the lessee uses the fair value model set out in IAS 40
- investment property provided by lessors under operating leases (see IAS 40)
- biological assets held by lessees under finance leases (see IAS 41)
- biological assets provided by lessors under operating leases (see IAS 41)

IAS 17 Leases sets out the treatment for reporting lease transactions in the financial statements. Leases are a major source of finance to a business and it is important that the financial statements disclose sufficient information to the readers of the financial statements. IAS 17, paragraph 10, states, “whether a lease is a finance lease or an operating lease depends on the transaction rather than the form of contract”.

Substance over form

Information in the financial statements should represent transactions in accordance with their commercial substance not merely their legal form. The accounting for leases is the application of this concept, as the classification of a lease as either a finance lease or an operating lease, depends on the substance of the transactions rather than the legal form of the contract.

IAS 17 distinguishes between two types of lease transactions:

- A finance lease and
- an Operating lease

A finance lease “is a lease that transfers substantially all the risks and rewards inherent to ownership of the asset”. An operating lease is a lease other than a finance lease. The classification of a lease is crucial, as different accounting, approaches are required for the different types of leases.

Indicators to be considered, individually or in combination, when classifying a lease as a finance lease includes:
1. If a lease transfers substantially all the risks and rewards, associated with ownership of an asset the lease should be classified as a finance lease. Risks involve meeting the costs of maintaining the asset or suffering the fall in value of the asset through technological obsolescence. Rewards include using the asset for substantially the whole of its useful life, and accruing the profits from the use of the asset.

2. Ownership of the asset will pass to the lessee at the end of the lease.

3. The lessee has an option to purchase the asset at a cost significantly below the fair value of the asset.

4. The term of the lease is for the major part of the economic life of the asset.

5. If there is little or no risk to the lessor then the agreement is likely to be a finance lease.

A persuasive factor in classifying a lease as a finance lease is if at inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. It should be noted that IAS 17 does not define what is meant by “substantially all”. Other indicators listed by IAS 17 that could also lead to the asset being classified as a finance lease include:

- Whether cancellation losses are borne by lessee
- Whether fluctuation in fair value at the end of the lease accrue to the lessee
- Whether the lessee has the option to extend the lease for a secondary period at a “peppercorn rent” (below the market rent).

To identify the characteristics of a lease over land and buildings the two elements should be separated. Land is generally considered to have an infinite life and therefore an associated lease will normally be classified as an operating lease, unless there are other characteristics, such as title of the land transferring to the lessee, that suggest otherwise.

**Accounting treatment of a Finance lease**

The lessee should recognise an asset and liability in its financial statement at the start of the lease term. The amount to be recognised is the fair value of the asset or if lower, the present value of the minimum lease payments. The present value is calculated by establishing the minimum lease payments due and discounting to take account of the time value of money.

The asset, which is a non-current asset, needs to be depreciated in line with IAS 16, property, plant and equipment.

**Finance charge**

Each payment made under a finance lease is a mixture of a finance charge and a repayment of capital. The finance charge is calculated as follows:

*Total lease rentals less the lower of the fair value of the asset and the present value of the minimum lease payments.*

The finance charge should be recognised in the income statement of each period of the lease liability. The period of the lease liability may not be the same as the term of the lease. If payments are paid in advance the lease liability will be paid off when the final payment is made at the start of the last year of the term of the lease. The lease term will continue to the end of the year, even though no liability will remain.
Accounting by lessees

The following principles should be applied in the financial statements of lessees:

- at commencement of the lease term, finance leases should be recorded as an asset and a liability at the lower of the fair value of the asset and the present value of the minimum lease payments (discounted at the interest rate implicit in the lease, if practicable, or else at the entity's incremental borrowing rate) [IAS 17.20]
- finance lease payments should be apportioned between the finance charge and the reduction of the outstanding liability (the finance charge to be allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability) [IAS 17.25]
- the depreciation policy for assets held under finance leases should be consistent with that for owned assets. If there is no reasonable certainty that the lessee will obtain ownership at the end of the lease – the asset should be depreciated over the shorter of the lease term or the life of the asset [IAS 17.27]
- for operating leases, the lease payments should be recognised as an expense in the income statement over the lease term on a straight-line basis, unless another systematic basis is more representative of the time pattern of the user's benefit [IAS 17.33]

Incentives for the agreement of a new or renewed operating lease should be recognised by the lessee as a reduction of the rental expense over the lease term, irrespective of the incentive's nature or form, or the timing of payments. [SIC-15]

Accounting by lessors

The following principles should be applied in the financial statements of lessors:

- at commencement of the lease term, the lessor should record a finance lease in the balance sheet as a receivable, at an amount equal to the net investment in the lease [IAS 17.36]
- the lessor should recognise finance income based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease [IAS 17.39]
- assets held for operating leases should be presented in the balance sheet of the lessor according to the nature of the asset. [IAS 17.49] Lease income should be recognised over the lease term on a straight-line basis, unless another systematic basis is more representative of the time pattern in which use benefit is derived from the leased asset is diminished [IAS 17.50].

Incentives for the agreement of a new or renewed operating lease should be recognised by the lessor as a reduction of the rental income over the lease term, irrespective of the incentive's nature or form, or the timing of payments. [SIC-15]

Manufacturers or dealer lessors should include selling profit or loss in the same period as they would for an outright sale. If artificially low rates of interest are charged, selling profit should be restricted to that which would apply if a commercial rate of interest were charged. [IAS 17.42]

Under the 2003 revisions to IAS 17, initial direct and incremental costs incurred by lessors in negotiating leases must be recognised over the lease term. They may no longer be charged to expense when incurred. This treatment does not apply to manufacturer or dealer lessors where such cost recognition is as an expense when the selling profit is recognised.
Finance leases in the financial statements of lessors

Key Points:
- Leased asset is not included in the Statement of Financial Position (SFP) of the lessor.
- Therefore no depreciation charge.
- Assets held under a finance lease recognized in the lessor's SFP as a receivable at an amount equal to the net investment in the lease.
- Each rental received should be split between interest receivable and a reduction in the receivable.
- The recognition of finance income (interest) should be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. This is likely to involve applying the actuarial method as in the lessee's books and records.

Example of Finance Lease Classification

Crossbow Limited, a manufacturer of machinery, leased out two machines during the year ended 31 December 2012 as follows:

<table>
<thead>
<tr>
<th></th>
<th>Machine A</th>
<th>Machine B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual rental</td>
<td>€8,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Cost of manufacturing machinery</td>
<td>€25,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Expected useful life</td>
<td>8 years</td>
<td>8 years</td>
</tr>
<tr>
<td>Lease Term</td>
<td>2 years</td>
<td>8 years</td>
</tr>
<tr>
<td>Normal sales value</td>
<td>€40,000</td>
<td>45,000</td>
</tr>
</tbody>
</table>

Requirement

Based upon the information provided, assess whether the two machines have been leased out by Crossbow Limited on either a finance lease or operating lease.

Solution

- The lease for Machine A is an operating lease, as the lease term is 2 years and the expected useful life of the asset is 8 years.
- The lease of Machine B appears to be leased out under a finance lease as the lease term matches the expected life of the machine and the minimum lease payments are €80,000 (€10,000 X 8 payments) are greater than the normal sales value of the asset of €45,000.
ACCOUNTING FOR FINANCE LEASES

Finance leases in the financial statements of lessees

Rationale for including in financial statements:
- Economic substance.
- Long-term commitment.
- Similar to buying an asset with a loan.
- *Framework* defines an asset and liability as:
  - Liability is a present obligation for outflow of resources
  - Asset is a resource controlled by the enterprise
  - *Emphasis is on flow of 'economic benefits'*
- IAS 17 requires that the land and buildings elements of a single lease are considered separately for classification.
- *Land* – indefinite economic life hence normally treated as an operating lease (unless ownership passes to lessee during lease term).
- *Buildings* – normally have a finite life and may be treated as a finance lease depending on terms of lease.
- In the Statement of Financial Performance (SFP), assets held under finance lease are treated as non-current assets and liabilities.
- The asset is depreciated over the shorter of the lease term or asset's useful life.
- Lease payments reduce the liability and cover any accrued interest.
- The lessee has to allocate the *finance charge* between accounting periods.
- The finance charge is charged to the Statement of Profit or Loss and Other Comprehensive Income (SPLOCI – P/L).

Capitalising the leased asset
- **Debit** Non-current assets (SFP)
- **Credit** Finance lease liability (SFP)

(Use lower of fair value and present value of minimum lease payments at inception of lease)
The minimum lease payments are derived by discounting them at the *interest rate implicit in the lease.*
Initial direct costs can be treated as part of the cost of the asset – provided they are directly attributable to activities performed by the lessee to obtain the finance lease
- **Debit** Depreciation expense (SPLOCI – P/L)
- **Credit** Accumulated depreciation (SFP)

Depreciation policies adopted should be consistent with other non-current assets. As with other non-current assets, impairment reviews should be conducted in accordance with IAS 36. If there is reasonable certainty that the lessee will eventually own asset, it should be depreciated over its estimated useful life.

Allocating the finance element to accounting periods
- **Debit** Finance lease liability
- **Credit** Cash/bank

Each lease payment comprises a repayment of capital and an interest charge for the period.
- **Debit** SPLOCI – P/L – finance cost
- **Credit** Finance lease liability
With the amount of the interest accrued over the period.

- How much interest is payable in total?

\[ \text{Total lease payments} \times \text{Less FV of asset (e.g. initial cost)} \times \text{Total finance charge (= interest)} \]

\[ \text{PV of MLP if lower} \]

\[ ** \text{allocated to the SPLOCI – P/L over the period for which the finance is provided, from commencement of the lease term until the last payment is made} \]

IAS 17 requires the finance charge to be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the outstanding lease obligation. As the lessee repays the capital sum, the total capital owed falls from period to period. The mix of capital and interest changes over the life of loan

**Payments in advance or arrears**

**Note:** Careful attention must be given to whether payments are in advance or arrears. Interest accrues overtime and is assumed to be included in the repayment if made at the end of the period.

Interest accrues over time and is included in the repayment (if made at the end of the period). However, where instalments are paid in advance:

- The first instalment repays capital only as no interest has yet accrued.
- At end of each accounting period, the year-end liability will include capital and interest accrued to date but not yet been paid.
- *Actuarial Method* – interest is charged at a constant percentage on the outstanding liability, this matching interest to 'loan' balance. This method is specified by IAS 17 as the most accurate. However, to apply it, the rate of interest implicit in the lease is required.
- *Sum-of digits method* – this method is a 'reasonable' approximation to the actuarial method where the implicit rate is not known. Greater proportion of interest will be charged in earlier years.
- *Straight-line method* could be used (but it is not recommended).

**Example 1: Calculating the interest rate implicit in a lease**

Bow Limited negotiated a four-year lease for a piece of machinery worth €40,000, with lease payments being €12,000 in advance. The cost of borrowing for Bow Limited is 14%.

**Requirement**

What is the implicit rate of interest in the lease?

**Solution:**

IRR \[= \frac{40,000 - (12,000 + 12,000)}{12,000 + 12,000} \text{ (annuity for 3 years @ 14\%)} \]

\[= \frac{28,000}{24,000} \times (1.2) = 13.7\% \]

Therefore the PV of lease payments are substantially the fair value of asset €40,000 = lease payments discounted at implicit interest rate €40,000 = €12,000 + €12,000 \( y \)

\[ \frac{28,000}{12,000} \times (1.2) = y \]

Implicit rate = 13.7%
**Actuarial Method**

**Example 2: Accounting for a finance lease (Payments in arrears)**

X Limited leased an asset under the following terms:
- Fair value of asset: €10,000
- Rentals in arrears: 4 years at €3,000 p.a.
- Implicit rate of interest: 7.72%
- Useful life of the asset: 4 years

**Requirement**

Calculate the interest charge and year end liability each year using the actuarial method, together with the relevant statement of financial position.

**Solution:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Opening Balance €</th>
<th>Interest Charge @ 7.72% €</th>
<th>Repayment €</th>
<th>Capital element of payment</th>
<th>Closing balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10,000</td>
<td>772</td>
<td>3,000</td>
<td>2,228</td>
<td>7,772</td>
</tr>
<tr>
<td>2</td>
<td>7,772</td>
<td>600</td>
<td>3,000</td>
<td>2,400</td>
<td>5,372</td>
</tr>
<tr>
<td>3</td>
<td>5,372</td>
<td>415</td>
<td>3,000</td>
<td>2,585</td>
<td>2,787</td>
</tr>
<tr>
<td>4</td>
<td>2,787</td>
<td>215</td>
<td>3,000</td>
<td>2,785</td>
<td>Nil</td>
</tr>
</tbody>
</table>

**Extract from Statement of Profit or Loss and Other Comprehensive Income – Year 1**

- Depreciation: €2,500
- Finance Cost: €772

**Extract from Statement of Financial Position**

End of Year 1
- Non-current Asset (€10,000 – €2,500): €7,500
- Non-current Liability – Lease: €5,372
- Current Liability – Lease: €2,400

**Extract from Statement of Profit or Loss and Other Comprehensive Income**

<table>
<thead>
<tr>
<th>Year</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€2,500</td>
<td>€2,500</td>
<td>2,500</td>
</tr>
<tr>
<td></td>
<td>€600</td>
<td>€415</td>
<td>215</td>
</tr>
</tbody>
</table>
Example 3: Capital and interest elements (Payments in advance)
A company has a year end of 31 December. A finance lease commences on 1 January 2012. Lease payments comprise four payments of €10,000 annually, commencing on 1 January 2012. The asset would have cost €34,869 to buy outright. The implicit rate of interest is 10%.

Requirement
Calculate the finance charge and year end liability each year using the actuarial method.

Solution:

Compare FV and PV of Minimum Lease Payment (MLP)
- FV = €34,869
- PV = €10,000 + €10,000 \times a_{10\%}^{3}
- PV = €10,000 + €10,000 \times (2.487)
  = €34,870

FINANCE CHARGE
The total finance charge to be allocated is:

| Total lease payments | 40,000 |
| Less initial cost of lease | (34,869) |
| Total finance charge | 5,131 |

Lease Liability

<table>
<thead>
<tr>
<th>Year</th>
<th>Bal b/f 1st January (obligation at start) €</th>
<th>Rental Payment 1st January €</th>
<th>Capital Bal remaining 1st January €</th>
<th>Finance Charge at 10%</th>
<th>Capital at 31st December</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>34,869</td>
<td>(10,000)</td>
<td>24,869</td>
<td>2,487</td>
<td>27,356</td>
</tr>
<tr>
<td>2013</td>
<td>27,356</td>
<td>(10,000)</td>
<td>17,356</td>
<td>1,736</td>
<td>19,092</td>
</tr>
<tr>
<td>2014</td>
<td>19,092</td>
<td>(10,000)</td>
<td>9,092</td>
<td>909</td>
<td>10,000</td>
</tr>
<tr>
<td>2015</td>
<td>10,000</td>
<td>(10,000)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Example 4: Capital and interest elements (Payments in arrears)

Same as Example 8.6, only with payments in arrears:
- €34,869 / 10,000 = 3.4869
- For n = 4, implicit rate of interest = 5.73% (approx.)

<table>
<thead>
<tr>
<th>Lease Liability</th>
<th>Bal b/f 1st January (obligation at start) €</th>
<th>Finance charge at 5.73% €</th>
<th>Rental Payment 31st December €</th>
<th>Capital at 31st December €</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>34,86</td>
<td>91,998</td>
<td>(10,000)</td>
<td>26,867</td>
</tr>
<tr>
<td>2013</td>
<td>26,867</td>
<td>1,539</td>
<td>(10,000)</td>
<td>18,406</td>
</tr>
<tr>
<td>2014</td>
<td>18,406</td>
<td>1,055</td>
<td>(10,000)</td>
<td>9,461</td>
</tr>
<tr>
<td>2015</td>
<td>9,461</td>
<td>539</td>
<td>(10,000)</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>40,000</td>
<td></td>
</tr>
</tbody>
</table>

Example 5: Accounting for a finance lease (Payments in advance)

The terms of a finance lease are as follows:
Cost of asset €25,000
Estimated useful life 5 years
Lease term is 5 years at €6,500 per annum in advance and the implicit rate of interest is 15.2%.

Requirement
Calculate the interest charge and year end liability each year using the actuarial method, together with the relevant statement of financial position.

Solution:
Year 1

<table>
<thead>
<tr>
<th>Year</th>
<th>Opening Balance €</th>
<th>Lease Payment €</th>
<th>Net Balance €</th>
<th>Finance Cost @ 15.2% €</th>
<th>Closing Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>25,000</td>
<td>(6,500)</td>
<td>18,500</td>
<td>2,812</td>
<td>21,312</td>
</tr>
<tr>
<td>2</td>
<td>21,312</td>
<td>(6,500)</td>
<td>14,812</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Depreciation €5,000 per annum (€25,000 / 5 years)

**Example 6: Accounting for a finance lease (Payments in advance)**

**Extract from Statement of Profit or Loss and Other Comprehensive Income – Year 1**

| Depreciation | €5,000 |
| Finance Cost | €2,812 |

**Extract from Statement of Financial Position – Year 1**

| Non-current Asset (€25,000 – €5,000) | €20,000 |
| Non-current Liability – Lease | €14,812 |
| Current Liability Lease (€6,500 – €2,812) | €3,688 |
| Interest Accrual | €2,812 |

**Solution**

<table>
<thead>
<tr>
<th>Year</th>
<th>Opening Balance €</th>
<th>Lease Payment €</th>
<th>Net Balance €</th>
<th>Finance Cost @ 15.2% €</th>
<th>Closing Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>25,000</td>
<td>(6,500)</td>
<td>18,500</td>
<td>2,812</td>
<td>21,312</td>
</tr>
<tr>
<td>2</td>
<td>21,312</td>
<td>(6,500)</td>
<td>14,812</td>
<td>2,251</td>
<td>17,063</td>
</tr>
<tr>
<td>3</td>
<td>17,063</td>
<td>(6,500)</td>
<td>10,563</td>
<td>1,606</td>
<td>12,169</td>
</tr>
<tr>
<td>4</td>
<td>12,169</td>
<td>(6,500)</td>
<td>5,669</td>
<td>861</td>
<td>6,530</td>
</tr>
<tr>
<td>5</td>
<td>6,530</td>
<td>(6,500)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Example 7: Accounting for a finance lease (Payments in advance)**

**Extract from Statement of Profit or Loss and Other Comprehensive Income**

<table>
<thead>
<tr>
<th>Year</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>€5,000</td>
<td>€5,000</td>
<td>€5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Finance Cost</td>
<td>€2,251</td>
<td>€1,606</td>
<td>€861</td>
<td></td>
</tr>
</tbody>
</table>
### Methods of allocating finance charges

The total finance charge to be allocated over the accounting periods must produce a constant periodic rate of interest on the outstanding lease obligations as per IAS 17. The two main ways of allocating finance charges are the actuarial method and the sum of the digits method.

#### Actuarial Method

The actuarial method charges interest at a constant percentage on the outstanding liability and matches the interest to the loan balance. The rate of interest implicit in the lease is required. The interest charged for each period is the interest rate multiplied by the balance remaining immediately after the rental payment is made.

#### Example: 8

Smith Limited entered into an agreement on 1 August 2007 for the lease of a grinding machine at an annual cost of €30,000 payable in arrears on 31 July each year. The agreement is for five years and there is an option within the lease agreement which allows Smith Limited to purchase the asset at the end of five years for a nominal amount. The asset is expected to have a useful life of approximately eight years. It would have cost Smith Limited €120,000 to purchase the machine outright. The present value of minimum lease payments is €119,800. Smith Limited uses the actuarial method to allocate the finance charge for this lease.

#### Solution

Grinding Machine (Finance Lease)
- Fair Value of asset: €120,000
- Present Value of Minimum payments: €119,800

Clearly finance lease and an estimate of the implicit rate of interest is: $\frac{120,000}{30,000} = 4.00$ from tables the implicit rate of interest is 8%
Year ended | B/f       | Interest@ 8% | Payment | Capital C/f |
---          | €         | €           | €       | €           |
31 July 2008 | 119,800   | 9,584       | (30,000)| 99,384      |
31 July 2009 | 99,384    | 7,950       | (30,000)| 77,334      |
31 July 2008:
Total liability = €99,384  
Non-current liability = €77,334  
Current (balance) = €22,050

**Sum of the digits method**

This method approximates the interest charge for each period by weighting the period in reverse order so that the most interest is charged in earlier periods.

**Example 9:**

Smith Limited entered into a six-year finance lease for an item of plant on 1 August 2007. The agreement requires Smith Limited to pay a deposit of €80,000 to be followed by five equal annual instalments of €120,000 on 1 August in each subsequent year. The purchase price of the asset if purchased outright would be €620,000. Smith Limited has just recently paid the insurance bill for the machine. Smith Limited uses the sum of digits to allocate the finance charge for this lease.

**Solution:**

\[\begin{align*}
\text{Total payments} & = (80,000 + (5 \times 120,000)) = 680,000 \\
\text{Less fair value of asset} & = (620,000) \\
\text{Finance charge} & = 60,000
\end{align*}\]

Sum of digits allocation = \(5+4+3+2+1 = 15\) (lease is payable in advance)

Year ended 31 July 2008 interest \(5/15 \times 60,000 = 20,000\)

Year ended | B/f       | Payment       | Capital  | Interest | c/f |
---          | €         | €             | €        | €        | €   |
31 July 2008 | 620,000   | (80,000)      | 540,000  | 20,000 (5/15)| 560,000 |
31 July 2009 | 560,000   | (120,000)     | 440,000  | 16,000 (4/15)| 456,000 |
31 July 2010 | 456,000   | (120,000)     | 336,000  | 12,000 (3/15)| 348,000 |
31 July 2011 | 348,000   | (120,000)     | 228,000  | 8,000 (2/15)| 236,000 |
31 July 2012 | 236,000   | (120,000)     | 116,000  | 4,000 (1/15)| 120,000 |
31 July 2013 | 120,000   | (120,000)     |          |          |     |

Total liability at 31 July 2008 = €560,000  
Non-current liability = €440,000  
Current liability = €120,000 (balance)
SUM OF DIGITS

Example 10: uses the information from Example 8:
Total finance cost is €7,500 and each period is allocated a digit:
= 4 + 3 + 2 + 1 = 10

The finance charge each year is
1. €Nil
2. $4/10 \times €7,500 = €3,000
3. $3/10 \times €7,500 = €2,250
4. $2/10 \times €7,500 = €1,500
5. $1/10 \times €7,500 = €750

*As the instalments are paid in advance, the number of periods of borrowing are equal to number of instalments minus 1.

Disclosure for finance leases
The company needs to disclose the net carrying amount of the asset held under a finance lease (split between their current and non-current components), present a reconciliation of the future minimum payments due at the end of the reporting period, and allocate these values to:
- within one year
- within two to five years
- after more than five years
A description of the company's significant lease arrangements should be presented.
Smith Ltd example continued:
Accounting policy
Assets acquired under long-term finance leases are capitalised and depreciated in accordance with the company's policy on property, plant and equipment. The associated obligations are included under financial liabilities.

**Income Statement**

<table>
<thead>
<tr>
<th></th>
<th>€</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance cost (€9,584 + €20,000)</td>
<td>29,584</td>
</tr>
</tbody>
</table>

Notes to the Income Statement
(1) Profit from operations is stated after charging:
  Depreciation of leased assets 118,308

**Balance Sheet**

Current liabilities:
- Finance lease liabilities (€22,050 + €120,000) 142,050
Non current liabilities:
- Finance lease liabilities (€77,334 + €440,000) 517,334

W1
Depreciation – Plant
  Grinding machine €119,800/8 = €14,975
  Plant €620,000/6 = €103,333 = €118,308

W2
One year €142,050
Two – five years €517,334
Operating Lease
An operating lease is any lease other than a finance lease. IAS 17 requires that the total of the lease payments should be charged as an expense directly to the income statement on a systematic basis over the lease term on a straight line basis. Any incentive received by the lessee, to encourage it to enter into a particular lease arrangement should be set against the rental expense on a straight line basis, unless a different basis is appropriate.

Operating leases in the financial statements of lessees
Lessee is simply renting the asset and the rental expense is charged to the SPLOCI – P/L. IAS 17 requires the lease payments under an operating lease to be charged on a straight line basis over the lease term, even if payments are not made on such a basis, unless another systematic and rational basis is more representative of the time pattern of the user's benefit. Hence if lease payments are not made evenly, an accrual or prepayment will be recorded in the SFP.

Example of Operating Lease
Ben Limited leased a car for its managing director under the following terms:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of car</td>
<td>€24,000</td>
</tr>
<tr>
<td>Rental</td>
<td>€1,040 per month</td>
</tr>
<tr>
<td>Term</td>
<td>2 years</td>
</tr>
<tr>
<td>Implicit rate of interest</td>
<td>18%</td>
</tr>
</tbody>
</table>

Requirement
What is the annual lease charge in Ben Limited's statement of profit or loss and other comprehensive income?

Solution:
The rental charge should be charged to SPLOCI on a straight line basis over the two years.
Operating lease expense (12 x €1,040) €12,480 pa

Disclosures for operating lease.
The company should disclose (as a commitment note) the outstanding payments under non-cancellable operating leases as follows:
- within one year
- within two to five years
- after more than five years

Example: 11
Smith Limited entered into the following contract during the year ended 31 July 2008. Items of specialised equipment were leased at a cost of €8,000 per month payable in advance. The lease term is for two years from 1 October 2007 and can be cancelled at any time by either party to the lease. Any maintenance is to be carried out by the lessor. The equipment would have a cost of €300,000 if purchased in the open market and is expected to have a useful life of seven years.

Solution:
This is an operating lease as it applies only to part of assets useful life and present value of lease payments does not constitute substantially all of fair value.
Equipment (operating lease)
10 months rental to be included in the financial statements: 10 X €8,000 = €80,000

Notes to the Income Statement:
Profit from operations is stated after charging:
Operating lease payments €80,000

Prior to IAS 17, one of the major attractions of leasing agreements for the lessee was the off balance sheet nature of the transaction. However, the introduction of IAS 17 required the capitalisation of finance leases and removed part of the benefit of off balance sheet financing. The capitalisation of finance leases effectively means that all such transactions will affect the lessee’s gearing and return on capital employed. Consequently, IAS 17 has significant implications for key accounting ratios used to analyse financial statements. Currently, under IAS 17, operating leases do not have to be capitalised. This means that if a lease can be structured such that it can be classified as an operating lease then the lease will act as a form of off balance sheet financing. This can be very attractive to many lessees. Currently there are proposals to remove the distinction between operating and finance leases to require the capitalisation of all leases. This will reduce the possibility of structuring lease contracts so as to take advantage of the accounting treatment currently pertaining to operating leases.

SALE AND LEASEBACK TRANSACTIONS
Entity sells an asset to a third party, receives the sale proceeds and then leases the asset back, paying a rental for its use. This can result in a finance or operating lease, depending on the substance of transaction. For a transaction that results in an operating lease: [IAS 17.61]

- if the transaction is clearly carried out at fair value - the profit or loss should be recognised immediately.
- if the sale price is below fair value - profit or loss should be recognised immediately, except if a loss is compensated for by future rentals at below market price, the loss it should be amortised over the period of use.
- if the sale price is above fair value - the excess over fair value should be deferred and amortised over the period of use.
- if the fair value at the time of the transaction is less than the carrying amount – a loss equal to the difference should be recognised immediately [IAS 17.63]

Sale and leaseback – finance lease

- The transaction is a means whereby, in substance, the lessor provides finance to the lessee with the asset used as security.
- Derecognise the carrying amount of the asset now sold.
- Recognise the sale proceeds.
- Calculate the profit on sale and recognise it as deferred income in the SFP and amortised in the SPLOCI – P/L over the period of lease.
- Recognise the finance lease and the associated liability and measure them in the normal way (at FV or PV of min lease payments)

Sale and leaseback – operating lease

- If sale price is at fair value:
  If an operating lease (e.g. lease back for one year) then the rewards of ownership are not substantially reacquired and a profit/(loss) is recognised immediately provided sale price is at fair value.
  - If sale price is above fair value:
    Defer excess profit and amortise over period of use of asset.
  - If sale price is below fair value:
Are future operating lease payments below market rates? 
If no, recognise profit or loss immediately. 
If yes, defer any loss and amortise over period of use of asset.

Disclosure: lessees – finance leases [IAS 17.31]
- carrying amount of asset
- reconciliation between total minimum lease payments and their present value
- amounts of minimum lease payments at balance sheet date and the present value thereof, for: the next year
- years 2 through 5 combined
- beyond five years
- contingent rent recognised as an expense
- total future minimum sublease income under non-cancellable subleases
- general description of significant leasing arrangements, including contingent rent provisions, renewal or purchase options, and restrictions imposed on dividends, borrowings, or further leasing.

Disclosure: lessees – operating leases [IAS 17.35]
- amounts of minimum lease payments at balance sheet date under non-cancellable operating leases for: the next year
- years 2 through 5 combined
- beyond five years
- total future minimum sublease income under non-cancellable subleases
- lease and sublease payments recognised in income for the period
- contingent rent recognised as an expense
- general description of significant leasing arrangements, including contingent rent provisions, renewal or purchase options, and restrictions imposed on dividends, borrowings, or further leasing.

Disclosure: lessors – finance leases [IAS 17.47]
- reconciliation between gross investment in the lease and the present value of minimum lease payments;
- gross investment and present value of minimum lease payments receivable for: the next year
- years 2 through 5 combined
- beyond five years
- unearned finance income
- unguaranteed residual values
- accumulated allowance for uncollectible lease payments receivable
- contingent rent recognised in income
- general description of significant leasing arrangements

Disclosure: lessors – operating leases [IAS 17.56]
- amounts of minimum lease payments at balance sheet date under non-cancellable operating leases in the aggregate and for: the next year
- years 2 through 5 combined
- beyond five years
- contingent rent recognised as in income
- general description of significant leasing arrangements
Stated below are the balances extracted from the books of the Department of Aviation Affairs for the year ended 31st December, 2014.

<table>
<thead>
<tr>
<th>Description</th>
<th>GH¢ 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>2,570.00</td>
</tr>
<tr>
<td>Wages</td>
<td>1,000.00</td>
</tr>
<tr>
<td>Fees, fines, licenses, penalties</td>
<td>104.00</td>
</tr>
<tr>
<td>Grants and other transfer payments</td>
<td>120.00</td>
</tr>
<tr>
<td>Finance costs</td>
<td>52.00</td>
</tr>
<tr>
<td>Supplies and consumables</td>
<td>170.00</td>
</tr>
<tr>
<td>Transfers from other government entities</td>
<td>250.00</td>
</tr>
<tr>
<td>Revenue from exchange transactions</td>
<td>60.00</td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td>66.00</td>
</tr>
<tr>
<td>Other revenue</td>
<td>150.00</td>
</tr>
<tr>
<td>Impairment of property, plant and equipment</td>
<td>46.00</td>
</tr>
<tr>
<td>Other expenses</td>
<td>70.00</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>255.00</td>
</tr>
<tr>
<td>Receivables</td>
<td>80.00</td>
</tr>
<tr>
<td>Investments (short – term)</td>
<td>45.00</td>
</tr>
<tr>
<td>Prepayments</td>
<td>47.00</td>
</tr>
<tr>
<td>Inventories</td>
<td>75.00</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>190.00</td>
</tr>
<tr>
<td>Land and buildings</td>
<td>1,044.00</td>
</tr>
<tr>
<td>Payables (short-term)</td>
<td>1,420.00</td>
</tr>
<tr>
<td>Other non-financial assets</td>
<td>15,000.00</td>
</tr>
<tr>
<td>Investments (Long-term)</td>
<td>170.00</td>
</tr>
<tr>
<td>Receivables (Medium-term)</td>
<td>851.00</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>700.00</td>
</tr>
<tr>
<td>Provisions (Current)</td>
<td>45.00</td>
</tr>
<tr>
<td>Superannuation</td>
<td>104.00</td>
</tr>
<tr>
<td>Payables (Medium-term)</td>
<td>240.00</td>
</tr>
<tr>
<td>Borrowings (Long-term)</td>
<td>665.00</td>
</tr>
<tr>
<td>Provisions (Long-term)</td>
<td>82.00</td>
</tr>
<tr>
<td>Employee Benefits (Medium-term)</td>
<td>150.00</td>
</tr>
<tr>
<td>Other non-financial assets</td>
<td>200.00</td>
</tr>
<tr>
<td>Current portion of borrowings</td>
<td>55.00</td>
</tr>
<tr>
<td>Employee Benefits (Short-term)</td>
<td>74.00</td>
</tr>
<tr>
<td>Capital contributed by other Government entities</td>
<td>194.00</td>
</tr>
<tr>
<td>Reserves</td>
<td>850.00</td>
</tr>
</tbody>
</table>
Required:

(20 marks)

QUESTION TWO

a) Government agencies and subvented organisations receive financial support from the government for their operations.

Required:
Explain THREE conditions which these entities must fulfil to enable them receive financial support from the government.

(3 marks)

b) i) Commitment accounting begins with the commitment process.

Required:
Identify THREE procedures involved in the commitment process.

(3 marks)

ii) Heads of departments have administering authority for advances, recoveries and proper record keeping in addition to administering losses incurred in advances issued to staff of his department (FAR 121).

Required:
Explain TWO reasons why a head of government entity may decide to write-off advances owed by public officials.

(2 marks)

c) i) Explain any THREE types of relationships between Government policy and the annual budget.

(3 marks)

ii) Explain FOUR reasons why the budget is regarded as a management tool for public accountability.

(4 marks)

d) i) The New Public Management concept in the public sector aims at structural, organisational and managerial changes in public financial management.

Required:
Identify TWO methods proposed by this new management system to improve public financial management.

(2 marks)

ii) The intention, methods and procedures of the regulatory and financial reporting framework of government are meant to ensure that the objectives of public institutions and the government are achieved.

Required:
Explain TWO objectives of the government regulatory and financial reporting framework.

(2 marks)

iii) Explain ONE major challenge that may affect the implementation of the objectives of effective financial reporting.

(1 mark)

(Total: 20 marks)
QUESTION THREE

a) Of late there has been a lot of discussions on the necessity for a Long-Term Development Plan in Ghana.

Required:
   i) What is a Long-Term Development Plan?
   ii) Outline THREE guiding principles of a Long-Term Development Plan.
   iii) Explain TWO reasons why earlier Long-Term Development Plans failed in Ghana.

b) In public sector accounting assets and liabilities are valued at their current market values or at fair prices, which is defined as the amount of money that would have to be paid to acquire the asset on valuation date.

Required:
   Explain how you would ascertain the current market values of the following public sector assets:
   i) Securities ;
   ii) Motor Vehicles ;
   iii) Office building.

(6 marks)

(3 marks)

(3 marks)

(4 marks)

(4 marks)

(4 marks)

(4 marks)

Question Four

a) i) What is public accountability?
   ii) Explain THREE mechanisms for ensuring public accountability in the public sector.

(4 marks)

b) i) Explain the term, corporate governance as applied to the public sector.
   ii) Explain THREE corporate governance principles commonly used in public financial management.

(4 marks)

(4 marks)

(4 marks)

i) State ONE objective of a public private partnership agreement?
   ii) Explain THREE factors that the Government would consider before entering into a public private partnership agreement?
iii) Explain the following terms used as guiding principles in *IPSAS 13 and 32 – Accounting for Public Private Partnership.*

- Service Concession Arrangement
- Lease
- Recognition of Revenue
- Economic Life of an Asset

(8 marks)

a) The problems associated with decentralized financial administration and exercising controls have received considerable attention from both academicians and legislators.

**Required:**
Explain **FOUR** reasons why it is necessary to have a decentralized financial management system in Ghana.  

(4 marks)

(Total: 20 marks)

**QUESTION FIVE**

a) Audit management reports of public sector entities often reveal vicious waste and misuse of public funds.

**Required:**
Explain **FOUR** mechanisms established by government to ensure that public organisations practice value for money in public financial management.  

(4 marks)

b) The Auditor General shall examine in such manner as he thinks necessary the public and other government accounts in accordance with applicable statutory provisions, stated accounting policies and generally accepted accounting standards.

**Required:**
Explain **FOUR** significant items in public sector accounting that the Auditor General would have to express his opinion on in public financial management.  

(4 marks)

c) *IPSAS 17 – Property, Plant and Equipment* provides guidance on the recognition, measurement, and derecognition of fixed assets.

**Required:**
Outline **THREE** main principles of IPSAS – 17 for the recognition, measurement and derecognition of property, plant and equipment.  

(3 marks)

d) i) Explain the term 'Taxable Persons'.  
 ii) Explain **THREE** main principles underlying the imposition of taxes in Ghana.  
 iii) Explain **SIX** types of taxes chargeable in Ghana.  

(1 mark)  
(3 marks)  
(3 marks)

e) Rather than proposing detailed and rigid financial regulations to achieve financial policy objectives of Government, some financial commentators have argued that public sector entities should have the freedom to run their affairs but must report on their financial activities with full disclosure.

**Required:**
Explain **TWO** advantages that the government would achieve by enacting laws on financial regulations.  

(2 marks)

(Total: 20 marks)
### QUESTION ONE

**Revenue**

<table>
<thead>
<tr>
<th>Description</th>
<th>GHS 000</th>
<th>GHS 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>2,570</td>
<td></td>
</tr>
<tr>
<td>Fees &amp; Fines</td>
<td>104</td>
<td></td>
</tr>
<tr>
<td>Revenue from Exchange Transactions</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>Transfers</td>
<td>250</td>
<td></td>
</tr>
<tr>
<td>Other revenue</td>
<td>150</td>
<td>3134</td>
</tr>
</tbody>
</table>

**Expenses**

<table>
<thead>
<tr>
<th>Description</th>
<th>GHS 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages</td>
<td>1,000</td>
</tr>
<tr>
<td>Grants</td>
<td>120</td>
</tr>
<tr>
<td>Supplies &amp; Other Consumables</td>
<td>170</td>
</tr>
<tr>
<td>Depreciation &amp; Amortisation</td>
<td>66</td>
</tr>
<tr>
<td>Impairment</td>
<td>46</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>70</td>
</tr>
<tr>
<td>Financial Cost</td>
<td>52</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>(1524)</td>
</tr>
<tr>
<td>Surplus for the period</td>
<td>1610</td>
</tr>
</tbody>
</table>

### (b) Statement of financial position as at 31/12/2014

**Current Assets**

<table>
<thead>
<tr>
<th>Description</th>
<th>GHS 000</th>
<th>GHS 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Cash Equivalent</td>
<td>255</td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>Investments (Short-term)</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>Prepayment</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>75</td>
<td>502</td>
</tr>
</tbody>
</table>

**Non-Current Assets**

<table>
<thead>
<tr>
<th>Description</th>
<th>GHS 000</th>
<th>GHS 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible Asset</td>
<td>190</td>
<td></td>
</tr>
<tr>
<td>Land &amp; buildings</td>
<td>1,044</td>
<td></td>
</tr>
<tr>
<td>Other Non-Financial Assets (15000+200)</td>
<td>15,200</td>
<td></td>
</tr>
<tr>
<td>Investment (long0term)</td>
<td>170</td>
<td></td>
</tr>
<tr>
<td>Receivable (medium term)</td>
<td>851</td>
<td>17,455</td>
</tr>
<tr>
<td>Total Assets</td>
<td></td>
<td>17,957</td>
</tr>
</tbody>
</table>
Liabilities / Equities

Current Liabilities

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Payables</td>
<td>1420</td>
<td></td>
</tr>
<tr>
<td>Short-term Borrowings</td>
<td>700</td>
<td></td>
</tr>
<tr>
<td>Current Portions of borrowings</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>Employees Benefits (short term)</td>
<td>74</td>
<td></td>
</tr>
<tr>
<td>Superannuation</td>
<td>104</td>
<td>2,398</td>
</tr>
</tbody>
</table>

Non Current Liabilities

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Payables</td>
<td>240</td>
<td></td>
</tr>
<tr>
<td>Borrowings (long term)</td>
<td>665</td>
<td></td>
</tr>
<tr>
<td>Provisions (long term)</td>
<td>82</td>
<td></td>
</tr>
<tr>
<td>Employees Benefit (medium term)</td>
<td>150</td>
<td>1,137</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td></td>
<td>3,535</td>
</tr>
<tr>
<td>Total Asset</td>
<td></td>
<td>17,957</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td></td>
<td>(3,535)</td>
</tr>
<tr>
<td>Net Assets</td>
<td></td>
<td>14,422</td>
</tr>
</tbody>
</table>

Net Assets / Equity

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital contributed by other government entities</td>
<td>194.00</td>
</tr>
<tr>
<td>Reserves</td>
<td>2,460.00</td>
</tr>
<tr>
<td>Accumulated surplus for the period</td>
<td>2,654.00</td>
</tr>
</tbody>
</table>

QUESTION TWO

a) Conditions Government Agencies must fulfil to receive financial support

i) Other public institutions as defined in section 45 (1) of Act 654 and government agencies, which receive financial support from government shall have agreements covering the payment of such support and shall provide for the:

   a. appointment of a government nominee in the governing body;
   b. Prior approval by the Government of financial and accounting arrangements of the institution concerned;
   c. Submission of the annual estimates to the Minister for review and submission to Parliament for approval;
   d. Audit of accounts by the Auditor-General or an Auditor appointed for the reporting to the Auditor-General; and
   e. Issue of directions by the government on matters affecting the financial policy to be adopted by the institution concerned.

ii) The requirement for receipt of financial support shall be subject to the condition that the institution assisted shall render audited annual statements of accounts to the Minister with a copy to the Controller and Accountant-General.

iii) The provisions of section 50(1) and (2) of the Financial Administration Act, 2003 (Act 654) shall apply to all other public institutions.
iv) Where financial support is given by Government to public institutions, quarterly returns on expenditure shall be forwarded to the Minister and the Controller and Accountant General in such form as may be determined by the Controller and Accountant-General in consultation with the Minister.

b (i) Commitment Process

At the commitment stage, it is necessary to verify that:

- The proposal to spend money has been approved by an authorized person;
- Procurement process has been completed;
- Money has been appropriated for the purpose in the budget and sufficient funds remain available in the proper category of expenditure;
- The expenditure is proposed under the correct category; and
- The institutions prepare, commit and issue approved Purchase Orders (PO) to the supplier.

(b)ii

i) When the officer resigns from employment without leaving any traceable address;
ii) When the officer dies having no known estate;
iii) When the expenses to be incurred in the collection of the advance is not justified in relation to amount of advance and its possibility of collection.

(c (i)

i) Annual budget is designed as a plan for implementing government policy;
ii) Annual budget is designed to translate government policy into financial outlays and inputs and outputs;
iii) Annual budget is designed to serve as a guide for managing the economy;
iv) The budget document is used as a means of looking for possible directions and reactions or changes to the implementation process.

c)ii

- Budgeting involves public sector managers in the budget process;
- Budgetary process is used to assess whether activities of public sector entities are the most effective means of achieving their objectives;
- The budget is used to assess the cost effectiveness and cost efficiency of operations of public sector entities;
- The budget is used to plan the cost of inputs, outputs and activities linked to the objectives of public sector entities;
- The budget is used to determine not only recurrent expenditures but also development and investment expenditures.

Solution (d) i

Concept of New Public Management in the Public Sector

Objective: Aims at structural organisational and managerial changes of the public sector.

Methods:

1. Reinventing Government
   Decentralizing management, and disaggregating and downsizing of public services.
2 **Re-Engineering & Revitalization of the Public Service**
Reducing state bureaucracy of centralization, and direct control to be replaced by managerialism.

3 **Organisational Transformation**
- Reforms are made credible and irreversible
- Adequate administrative and institutional capacity is provided

4 **Total Quality Management**
- Managerial improvement
- Corruption minimized

5 **Results Oriented Management**
Market based public service management or “enterprise culture”

6 **Outsourcing Jobs**
Contracting out provision of public services

7 **Empowering rather than serving**
- Commitment to economic growth
- Investment and international competitiveness

d)ii
The objectives of government regulatory and financial reporting framework should achieve the following:

- Show whether financial resources are obtained and spent in accordance with the national budget;
- Show whether the government overspent or underspent budgeted amounts and what changes necessitated those performances;
- Show whether control over commitments and obligations are effective and whether any challenges that exist are due to cash outlays or revenue inflows;
- Show whether financial flows may be determined or predicted;
- Evaluate the performance of the economy and state institutions.

(d) iii
**Challenges to Regulations and Financial Reporting**

**New Environment**

i) Sometimes regulations designed to promote financial soundness and reporting may prevent desirable changes and interfere with the ability of the system to adapt itself to a new environment;

**Outmoded Laws**

ii) Regulatory bodies are usually slow to redefine the purposes and financial structures of public institutions. As public entities seek to broaden their scope of operations they are often faced with legal constraints and outmoded laws and financial regulations

iii) Timeliness – Undue delays will make reports lose their relevance;

iv) Cost Benefit – Cost of providing information should not be more than the benefits;

v) Quality – Quality of reports should meet objectives of financial reports;

vi) Collusion – When public officers collude to misapply or misappropriate public funds and property the objectives of regulations are defeated;

vii) Corruption – This is one of the risk factors that undermine public institutions and destroy the goals of public entities, making the application of regulations ineffective.
QUESTION THREE

a)  **Long-Term Development Plans**

Economic development plans that spread over a number of years and are intended as bedrock of achieving development objectives of a country.

ii  **Guiding principles of a Long-Term Development Plan**

i)  Capacity, ability and social and political stability;

ii)  Effective, reliable, pragmatic, flexible, legitimate, and well implemented strategy;

iii)  Identification of the core priorities of a country;

iv)  Urgency, political will and drive;

v)  Public and stakeholders legitimacy;

vi)  Should be devoid of strait-jacket economic ideologies and dogmas

iii  **Failure of earlier Long-Term Development Plans**

i)  Long period of Military Interventions;

ii)  Lack of political will, drive, faith, urgency, commitment;

iii)  Absence of national ideological cohesion caused by inter-party and intra-party ideological cohesion;

iv)  Improper planning and implementation.

a)  It may be possible to use information on securities that are traded on a stock exchange to value similar securities by analogy, making an allowance for the inferior marketability of the non-traded securities.

If an existing fixed asset is no longer being produced but has been replaced by an asset whose characteristics are significantly different in some specific aspects but otherwise are broadly similar (for example, new models of vehicles or aircraft), then it may be reasonable to assume that the price of the existing asset would have moved in the same way as the price of the asset currently being sold.

Most fixed assets are recorded in the balance sheet at their “written-down replacement cost”. This value is the original acquisition value of the asset adjusted by an allowance for price changes and then written down for the accumulated consumption of fixed capital.

The public procurement reform programme was part of a wider reform agenda targeted at improving public financial management. The objectives of the procurement reform proposals are to:

- Promote national development;
- Enhance harmony with other local and international laws;
- Foster competition, efficiency, transparency and accountability;
- Facilitate ease of procurement administration; and,
- Ensure value for money.
d) **Features of the New Chart of Accounts**
   
i) It reflects financial responsibility and accountability;

ii) It enables analysis of the budget by sector, geography and activity;

iii) If follows a logical pattern and so after some initial training and experience is relatively simple to understand and operate;

iv) It allows scope for future refinement and development and the introduction of more sophisticated forms of accounting elements of accrual accounting are already provided for;

v) It facilitates the integration of recurrent and development activities and provides for the separation of recurrent and development expenditure;

vi) It enables direct comparison of budget, commitment and actual transactions on modified accrual accounting and also facilitates measurement of resources;

vii) It introduces cost centre budgeting and accounting, which provides management of a budget at a decentralized level. These centres are equivalent to Head and Sub-Head Controllers as well as projects.

viii) It facilitates the production of consistent financial information at different levels of aggregation, resulting in a consolidated level of accountability to all interested parties.

---

e) **Internal Controls Over Revenue**

**Local Government**

Internal controls related to the Revenue function of the District Assembly shall ensure:

a. That revenues are consistently administered in compliance with the relevant laws;

b. That there is a rating system in place to ensure that the Assembly's rateable persons and properties within the Assembly area are identified and that a valuation list is maintained and revised regularly in accordance with Section 96 (8) of the Local Government Act.

c. That Nominal Roll (D.A. Form 15) of ratepayers is maintained;

d. That Notice of Rates is published in the gazette (Fee Fixing Bulletin) in accordance with the applicable laws;

e. That all revenue due the Assembly have been identified, properly assessed, collected, lodged and recorded;

f. That revenue collected are adequately protected whilst in the custody of the District Assembly and that the gross amount is deposited in the bank accounts within 24 hours.

g. That adequate procedures and operational systems are in place to capture all such public revenues;

h. That all revenue received or receivable have been properly recorded in the appropriate books of account;

i. The collection of revenue by assembly shall be the responsibility of DCD;

j. All customers are promptly identified and the appropriate amount collectible from them assessed. A customer here is defined as any institution or individual that owes the Assembly because of goods and services supplied to him or the organisation;

k. Revenues are collected by officers having the appropriate authority to do so.

l. Authorized revenue officers shall issue serially numbered official General Counterfoil Receipts (GCR) for all revenues collected.

m. Revenue Officers are required to prepare and sign Daily Collections Summaries (DCS);

n. Based on the DCS, revenue officers are required to prepare pay-in-slips and pay revenue collections intact into the District Assembly's designated Bank Accounts.
QUESTION FOUR

a)
   i) Public Accountability is the ability to call public officials to answer for their actions and inactions and to show evidence that public funds are utilized for public interest.

   ii) Mechanisms for ensuring public accountability
       i) Disclosure – making information available to stakeholders;
       ii) Organisational structure – Defines clearly the authority and responsibilities of individual office holders;
       iii) Reporting – provision of financial, administrative and other relevant entity reports to government and other stakeholders;
       iv) Transparency – making information available and openness of information at no or low cost to stakeholders;
       v) Predictability – adherence to law and regulations that are clear and known in advance, uniformly and effectively enforced.

b)"Corporate Governance Principles for Governing Public Sector Entities." This involves the re-evaluation of the role of government to ensure greater accountability and greater devolution of power.

   Definition of Corporate Governance
   The process by which organisations are directed, controlled and held to account. This is underpinned by the principles of openness, integrity and accountability.
   Governance is concerned with structures and processes for decision making, accountability, control and behaviour at the top of the organisation.

ii) Principles of Corporate Governance
   The principles of corporate governance are as follows:
   (a) Standards of behaviour
   (b) Organisational structures and processes
   (c) Control
   (d) External Reporting
   These principles are relevant to public sector entities as well as private sector entities

   (a) Standards of Behaviour
   This may be summed up as leadership, codes of conduct, objectivity, integrity and honesty
   - Leaders must be role-models
   - Codes of conduct must define standards of behaviour
   - Employees must not be influenced by prejudice
   - Bias or conflicts of interest.

   (b) Organisational Structures and Processes
   These include statutory accountability, accountability for public money and communication with stakeholders.
   - Compliance with legal rules;
   - Safeguarding of assets and value for money
   - Clear channels of communication with stakeholders and effective operation of channels of communication.
(a) **Control**

- They include Risk Management, Internal Audit, Audit Committees and external audit process;
- Effective systems of risk management must be established;
- Effective internal audit function must be established;
- There must be independent review of framework of control by Audit Committees;
- Framework of internal controls should be established.

(b) **External Reporting**

- Need for timely publishing of financial statements and results of operations;
- Need for responsibility accounting, that is, responsibility for approval of budget, authorization of use of funds, maintenance of effective framework of control;
- Need for appropriate accounting principles and prudent judgement, and estimates and ensuring adherence to applicable accounting standards;
- Need for reports of relevant performance measures to demonstrate effective, efficient and economic use of resources;
- External Auditors should ensure objectivity and professionalism in their work.

c) **Objectives of the Public Private Partnership Agreement**

a) Leverage public assets and funds with private sector resources from local and international market to accelerate needed investments in infrastructure and services,

b) Encourage and facilitate investments by the private sector by creating and enabling environment for PPPs where value for money for government can be clearly demonstrated;

c) Increase the availability of public infrastructure and services and improve service quality and efficiency of projects;

d) Ensure attainment of required and acceptable local and international social and environmental standards;

e) Protect the interest of all stakeholders including end users, affected people, government and the private sector;

f) Set up efficient and transparent institutional arrangements for the identification, structural and competitive tendering of PPP projects;

g) Provide framework for developing efficient risk sharing mechanisms;

h) Encourage and promote indigenous Ghanaian private sector participation in the delivery of public infrastructure and services.

c) ii **Guiding Principles for Public Private Partnerships**

a) **Value for Money**

Value for money is paramount and PPPs should give greater value for money than the best realistic public sector project designed to achieve similar service outputs. Achieving value for money is a key requirement of government at all stages of a project's development and procurement and is a combination of the service outcome to be delivered by the private sector, together with the degree of risk transfer and financial implications for government. Value for money is the driver for adopting the PPP approach, rather than capital scarcity.
a) **Risk Allocation**
An efficient risk allocation is vital in determining whether value for money can be achieved in PPP projects. Risks allocation is used to optimize, rather than maximize, the transfer of project risk to the private party. Risks will therefore be allocated to the party best able to control and manage them in such a manner that value for money is maximized. The allocation of risk will therefore determine the chosen method of private sector involvement and allocation of responsibilities, which shall take into account the protection of the public interest.

b) **Ability to Pay**
End user ability to pay is a key consideration for all PPP projects. The PPP option must demonstrate long-term affordability to the public and overall Government budgetary sustainability, forward commitments in relation to public expenditure and the potential for returns on private sector investments, given other priorities and commitments.

c) **Local Content and Technology Transfer**
PPP projects supposed to be structured to encourage the maximum use of local content and technology transfer. As much as possible, the PPP arrangement should facilitate the promotion of local industries and the private sector in the Ghana.

d) **Safeguarding Public Interest and Consumer Rights**
PPP project should have positive impact on the public interest. The following important principles need to be addressed in PPP transactions:- safeguards to user's particularly vulnerable groups; - Setting affordable user charges and tariff structures.

e) **Environmental, Climate and Social Safeguards**
The government should ensure that PPP activities conform to the environmental laws of the country and the highest standard of environmental climate and social safeguards.

c) iii) **Service Concession Arrangement**
This is a binding arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement.

**Lease**
This is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

**Recognition of Revenue**
All revenues are recognized evenly over the term of the arrangement. Revenues are recognized as reduction of liability.

**Economic Life of an Asset**
The period over which an asset is expected to yield economic benefits or service potential to one or more users or the number of production or similar units expected to be obtained from the asset by one or more users.

d) • **The Scope of Financial Activities** of government has expanded tremendously since the country gained its independence and therefore there is the need to restructure, reform and decentralize methods and management of financial operations to reflect the diversity of public financial management in Ghana;
• **Stewardship and Control** is the act of protecting public property and money and control involves having the power or ability to make decisions. In the exercise of stewardship and control a head of government department is expected to produce quarterly profiles of reports about his/her unit. He is also responsible for undertaken the following:
  o Control of expenditure;
  o Handle unexpected events;
  o Control cash limits;
  o In some cases he may be called upon to produce a summary of economic prospects of his organisation.
  o Control problems resulting from excessive bureaucracy will be improved through greater delegation of power and decentralization.

• **Local government authorities** are best suited to plan, initiate, coordinate, manage and execute policies in respect of all matters affecting the local people since they are familiar with the environment.

• **Enhancing and sustaining public accountability** obviously require decentralization of public financial management because the lack of control at the local level makes it difficult to take financial decisions.

• **Decentralized financial administration** may reduce cost of making decisions and bringing financial administration closer to the local citizens especially in matters of revenue collection and management.

**QUESTION FIVE**

(a) **Mechanisms for Value for Money**

There are several mechanisms put in place by government to ensure that public interests are protected and state organisations practice value for money in public financial management. Among these are:

a) **Laws and Regulations**

ii) **Regulatory Bodies**

iii) **Price Commissions/Commissions of Enquiry**

iv) **The Budget**

• **Laws and Regulations**

To ensure economic use of resources and value for money various laws and regulations have been established by government to serve as productivity factors, related efficiency yardsticks and prescriptions to prevent misuse of public funds and ensure value for money. Among these are the Financial Administration Act and Regulations, and The Public Procurement Act.

• **Regulatory Bodie**

As an integral part of government financial operations, regulatory institutions have been established to ensure efficiency management, use of public moneys and resources, safety of public property, cost of services provided to the general public and quality of services provided by the private sector the public and to state entities. These regulatory bodies include the Ministry of Finance, Controller and Accountant General's Department, The President and Cabinet, Parliament, Audit Service, Internal Audit Agency and a host of others.
**Price Commissions / Commissions of Enquiry**

Sometimes price commissions and commissions of enquiry are appointed by the President to frequently review some public entities and state financial transactions to ascertain the use of public economic resources and value for money in public contracts.

**The Budget**

Budgetary principles of financial control, transparency, public participation, and public accountability provide checks and procedures to prevent misuse of state resources and ensure value for money.

b) **Section 13 – Examination of Accounts (Audit Service Act)**

The Auditor General shall examine in such manner as he thinks necessary the public and other government accounts and shall ascertain whether in his opinion:

(a) The accounts have been properly kept;
(b) All public monies have been fully accounted for, and rules and procedures applicable are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue;
(c) Monies have been expended for the purpose for which they were appropriated and the expenditures have been made as authorized;
(d) Essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property; and
(e) Programmes and activities have been undertaken with due regard to economy, efficiency and effectiveness in relation to the resources utilized and results achieved.

c) **IPSAS 17 – Property, Plant and Equipment provides guidance on the recognition, measurement and derecognition of fixed assets. The main principles are summarises below:**

- **Recognition**
  The cost of an item of property, plant and equipment is recognised as an asset if it meets the following conditions:
  o It is probable that future economic benefits or service potential associated with the item will flow to the MDA
  o The cost or fair value of the item can be measured reliably
- **Measurement**
  An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost
  - The cost of PPE comprises
    a. Its purchase price including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates
    b. Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
    c. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.
  - If an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value at the date of its acquisition. A non-exchange transaction is one in which an entity receives resources and provides no or nominal consideration in return.
• **Measurement after Recognition**
  An MDA shall choose either the cost model or the revaluation model as its accounting policy and shall consistently apply that policy to an entire class of property, plant and equipment.
  - Cost model. The asset is carried at cost less accumulated depreciation and impairment
  - Revaluation Model. The asset is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation, provided that fair value can be measured reliably. Under the revaluation model, revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date. If an item is revalued, the entire class of assets to which that asset belongs should be revalued.

• **Derecognition**
  The carrying amount of an asset shall be derecognized (written off) if:
  - The asset is disposed of;
  - No future economic benefits are expected to be accrued to the MDA from the use or disposal of the asset

• **Disclosure**
  For each class of property, plant and equipment, an MDA must disclose the following:
  - Basis for measuring carrying amount;
  - Depreciation method(s) used;
  - Useful lives or depreciation rates;
  - Gross carrying amount and accumulated depreciation and impairment losses;
  - Reconciliation of the carrying amount at the beginning and the end of the period showing;
  - Additions;
  - Disposals;
  - Acquisitions through business combinations;
  - Revaluation increases;
  - Impairment losses;
  - Reversals of impairment losses;

**Depreciation**
Depreciation is the decline in the value of a fixed asset over an accounting period because of normal usage, physical deterioration due to wear and tear and age.

The estimated decline in the value of a fixed asset is allocated to the accounting periods over which the relevant asset is expected to be in use.
The primary objective of depreciation is to match the cost of fixed asset, which typically have a useful life of more than one year, to the revenues derived from the use of that asset by the MDA.

MDAs shall apply the straight-line method of depreciation and the depreciation rates advised by the Controller and Accountant General. This method of depreciation allocates the cost of an asset less its present value evenly over the expected useful life of the asset.
The rates currently in use are as follows:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Depreciation rate</th>
<th>Expected useful life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential Building</td>
<td>5%</td>
<td>20 years</td>
</tr>
<tr>
<td>Non Residential Building</td>
<td>5%</td>
<td>20 years</td>
</tr>
<tr>
<td>Other structures</td>
<td>5%</td>
<td>20 years</td>
</tr>
<tr>
<td>Transport Equipment</td>
<td>20%</td>
<td>5 years</td>
</tr>
<tr>
<td>Other Machinery Equipment</td>
<td>10%</td>
<td>10 years</td>
</tr>
<tr>
<td>Infrastructure assets</td>
<td>7%</td>
<td>14 years</td>
</tr>
</tbody>
</table>

d)

i) Taxable persons
   - All individuals are taxable persons whatever their age unless they are specifically exempt;
   - Tax charged on the income of an office or employment;
   - Persons resident in Ghana are normally liable only to the extent that they derive their income from Ghana.

ii) The main principles underlying the imposition of taxes are:
   - Affordability (ability to pay in proportion to income or wealth)
   - Taxes should be certain, not arbitrary
   - Taxes should be levied in a convenient way
   - Cost of imposing and collecting taxes should be low
   - Taxes on international trade should be convenient and competitive.

d)

iii) Types of Taxes Chargeable in Ghana

Domestic Taxes
Domestic taxes are administered by the Domestic Tax Revenue Division (DTRD) of the Ghana Revenue Authority. It is the merger of the operational wings of the erstwhile value Added Tax service and the Internal Revenue Service. Some of the domestic taxes being administered by the DTRD include:

Income Tax
Corporate Tax: this is the tax paid by companies on their profits in the year
The tax rate is 25%

Personal Income Tax: self-employed persons are required to pay income tax at graduated rates in four equal instalments. The current Personal Income Tax rates took effect from November 2011.
Stamp Duty
Stamp duty is administered under the Stamp Duty Act, 2005 (Act 689). The Stamp Duty is not a tax on transactions, but on documents brought into being for the purposes of recording transactions. It is therefore a tax on documents or specific instruments which have legal effect.

Gift Tax
This is a tax payable by a recipient on the total value of taxable gifts received in a year of assessment. The total value of taxable gift(s) must exceed GH¢50.00 in a year of assessment. Assets on which tax is imposed include land, buildings, money (including foreign currency), shares, bonds and securities, business and business assets. The rate of tax is 5%.

Capital Gains Tax
This is a tax paid on the gains made from the realization or sale of a chargeable asset where the gain exceeds GH¢50.00. Assets on which tax is imposed include land, buildings, business assets including goodwill and shares of a resident company. The rate of tax is 15%.

Rent Tax
This is the tax paid by rent income earners on the gross amount earned in a year of assessment. The rate of tax is 8% on the gross rent income. It is a final tax.

Mineral Royalties
This is a tax imposed on persons for the extraction of natural resources on or under the surface of the earth. The rate is 5%.

Communications Service Tax (CST)
The communication service tax (CST) is a tax levied on charges for the use of communication services that are approved by communications service operators. It is paid by consumers to the communications service providers, who in turn pay all CST collected on a monthly basis.

VAT
Value Added Tax (VAT) is abroad-based tax imposed on the expenditure of consumers when they purchase goods and services. It is collected by businesses which are registered to charge the tax in stages on the “value added” from the manufacturing to retail level. The businesses then account or the tax so collected at the end of every month. The current standard rate of tax is 12 ½ percent. A zero (a) rate is also applied to all exports.

National Health Insurance Levy (NHIL)
The National Health Insurance Levy (NHIL) is a levy imposed on goods and services supplied in or imported into the country. All goods and services are subject to the levy unless they are otherwise exempted. The levy is charged at a rate of 12 ½ on the VAT exclusive selling price of goods supplied or service rendered. The NHIL is a collected by registered businesses in the same way as VAT is collected.

VAT Flat Rate Scheme (VFRS)
This is a special method for collecting and accounting for VAT/NHIL. It is designed for traders operating in the retail sector. Under the VFRS, registered retailers of taxable goods shall charge VAT/NHIL at a marginal rate of 3% on the value of each taxable item sold.
Two Advantages of financial Regulations

i) Risk Management
   Effective systems of risk management can be established through regulations.

ii) Internal Controls
   A framework of internal controls can be established to enable the organisation to attain its stated objectives.

iii) Organizational Structures and Processes
   It is important to have clearly defined duties and roles for specified public officials, a defined governance structure, accountability for funds, communication structure and safe guarding of assets, in order to prevent institutional failures.

EXTRACTS FROM THE CHIEF EXAMINER'S REPORT
PUBLIC SECTOR ACCOUNTING AND FINANCE MAY 2016

Strengths of Candidates
Generally the strength of candidates reflected in the quantitative questions such as preparation of public sector financial statements.

The weaknesses that were always observed in the theory questions mainly resulted in candidates' poor understanding of the subject matter of public sector accounting. In this regard, one may conclude that there has always been poor foundational knowledge of the subject matter of Public Sector Accounting.

For example most candidates are not aware that:

- All acts of government must be covered by laws or regulations;
- Public Sector Accounting procedures must be strictly implemented in order to prevent the risk or likelihood of public institutional failures as exemplified by proceedings of Public Accounts Committee of Parliament;
- Public sector organisations normally have excessive emphasis on rules, procedures and a concern for definitional details.

Detailed Question by Question Analyses

Question 1
Understanding of question I is a perennial problem in public sector accounting. The questions usually cover a comprehensive treatment of financial transactions towards a standard preparation of financial statements, definitions and concepts, treatment of subsidiary commitment accounts and often interpretation of financial statements and their influence on the general economy.
The Controller and Accountant General in collaboration with the Auditor General have provided a comprehensive treatment of public sector financial transactions and other economic flows in the public financial management system. This enables the opening and closing balance sheets to be reconciled fully. However, as the years rolled by the treatment of government productive activities in public financial management has differed substantially from the treatment of those activities in previous years due to methodological changes in the government accounting system. Various classifications are also applied to the flows and stocks in IPSAS and GOG classifications which often confuse the candidates. Despite harmonization of the public sector financial management system with the introduction of GIFMIS, many candidates are yet to come to grips with the new financial system.

**Questions 2-5**

These involve the accounting treatment of units in the general government sector such as subvented organisations, budgeting and its relationship with government policies, determination of commitments, laws and regulations, value for money, public sector auditing, taxation, decentralization and GIFMIS. Most of these questions involve definitions, explanations and applications. Some are knowledge-based, a few involve critical analysis, but generally if a candidate has thoroughly covered the syllabus there is no reason why he or she should not pass the paper. Candidates who deviated from these questions were usually those who were ill-prepared and therefore did not understand the meaning of the questions.

**Nature of Answers Presented**

Wrong or contrary answers cut across all questions that were asked, although the preponderance was on analytical questions such as: Question 2(d)

The intention, methods and procedures of the regulatory and financial reporting framework of government are meant to ensure that the objectives of public institutions and the government are achieved.

- Explain *Two* objectives of the government regulatory and financial reporting framework
- Explain *one* major challenge that may affect the implementation of the objectives of effective financial reporting.

**Areas where most candidates were ill-prepared**

**Question 5(d)**

The Auditor General shall examine in such manner as he thinks necessary the public and other government accounts in accordance with applicable statutory provisions stated accounting policies and generally accepted accounting standards.

**Required**

Explain four significant items in public sector accounting that the Auditor General would have to express his opinion on in public financial management.
The question states clearly that the opinion to be expressed by the Auditor General is prescribed in law, that is, The Audit Service Act. However most candidates ignored what the law prescribed due to lack of understanding of the question and presented their own views.

Question 3(d)

Many candidates are still not familiar with the new Chart of Accounts. The impression is created that the candidates do not really know the importance of Chart of Accounts in Public Financial Management.

Question 2(d)

Many candidates are not familiar with The New Public Management concept and how the concept is meant to impact on public financial management.

Allotment of Time for Questions
Although at first glance the questions appeared to be loaded with regard to allotted time and marks, the majority of candidates who were well-prepared for the examination answered all the questions with relative ease and satisfaction within the time-frame.

Comment on the Marking Scheme
The majority of examiners had no problem with the marking scheme and marked the scripts according to agreements arrived at during coordination. However, a few examiners tended to digress from the scheme and appeared to be over-generous with the marks allocation.

Suggested Areas to improve the strength of candidates
a. There is the need to prepare candidates adequately for the Public Sector Accounting examinations. This may involve the Institute creating learning centres in areas such as Takoradi, Sunyani, Wa and Tamale.

b. All topics in the syllabus need to be thoroughly taught to the candidates.

c. Candidates should be encouraged to master examination techniques and management of time during examinations.