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ICAG NEWS TIT BITS

1.1 Report ‘misbehaving’ chartered accountants for sanctioning – Says ICAG President

The President of ICAG, Prof. Omane-Antwi has called on organizations to report chartered accountants found to be indulging in any dishonorable dealings to the Institute so that disciplinary actions can be taken against such offenders. He said all chartered accountants certified by ICAG are taken through a series of rigorous training programmes and processes, and are also bound by the code and ethics of the accounting profession.

He debunked suggestions that the accounting fraternity in the country is fraught with wrongdoings, particularly in view of the yearly revelations of ‘wrongdoings’ in the finance and accounting departments of most public sector organizations at each Public Accounts Committee (PAC) sitting. He said there may be problems in various organizations related to accounting, but demanded to know if any of those cases of financial malfeasance have been reported as being a chartered accountant.

It was against this background that he repeated the call on any organization finding an ICAG-certified accountant involved in any unacceptable practice to bring it to the Institute’s attention for the necessary sanctions to be applied to that individual. The President made these remarks during a courtesy call on the Asantehene Otumfuo Osei Tutu II at the Mahyia Palace in Kumasi. He also urged Ghanaians particularly ICAG members to always work with integrity.

The President appealed to government to ensure that the little finances are put to equitable use.

He observed that the lapses which may arise in the course of governance system’s process should be brought to book, and more effort be put into eliminating corruption. He advised that certified chartered accountants should be used within the governance structure; from the Metropolitan, Municipal, and District Assemblies, up to the top of government administration.

He stressed that organizations that do not employ chartered accountants are at risk and can only resort to the Police for help in times of challenges – unlike the ICAG members who are bound by a code of ethics.

The visit to Manhyia was to brief Otumfuo about the number of activities and programmes being undertaken by the Institute in the country. He said ICAG have initiated a number of programmes to help build up the Accountant-General’s Department, and signed an MoU with the Audit Service and other institutions and public organizations, including an impending one with the Ghana Police Service among others.

He again disclosed that discussions are ongoing to establish an ‘Accountancy Chair’ at the Kwame Nkrumah University of Science and Technology (KNUST), to help both lecturers and students to research into accounting. The President further indicated the preparedness of ICAG members to offer their services during the upcoming general elections in the country in November 2016.

The Asantehene advised the Institute to make its impact felt in the country’s governance by making a stronger input in the national budget, and ensuring proper financial management in the government and the country at large. Present at the meeting were the CEO of ICAG, Mrs. Angela Peasah, and some executives of the Kumasi Society.
1.2 ICAG Signs MoU with State Enterprises Commission to Enhance Capacity of SOEs Accountants

The Institute of Chartered Accountants, Ghana have signed an MoU with the State Enterprises Commission (SEC), under which ICAG will assist State Owned Enterprises (SOEs) to prepare financial statements that are compliant with the International Financial Reporting Standards (IFRS). Under the agreement, ICAG and SEC will collaborate to strengthen the capacity of SOEs by upgrading the skills and building the capacities of accountants in SOEs.

Speaking at the signing ceremony, the Executive Chairman of SEC, Dr. Camynta Baezie said the 2014 World Bank report on the Observance of Standards and Codes (ROSC) stated that accounting and auditing practices in Ghana suffered from institutional weaknesses in regulation, compliance and enforcement of standards and rules among others. He further stressed that the collaboration is to help strengthen the capacity of the state enterprises, and that ICAG is to review and advise government on the state of implementation of IFRS.

The Executive Chairman of SEC, explained that under the MoU, training would be offered on IFRS, to enhance the capacity and more importantly, pass on the requisite knowledge to the accountants, to ensure compliance with respect to the preparation of their financial statements. He further said that there will be follow-ups on SOEs which did not comply fully, to ensure that compliance with IFRS is upheld in the preparation of their financial statements.

Professor Omane Antwi said the SEC and ICAG shared the common interest of ensuring that the quality of public financial management in the country was enhanced.

He said the rationale for signing the MoU was to create a formal basis for cooperation and collaboration to, among others, advocate influencing and promoting public financial management and also monitoring and evaluating the quality of financial reporting by SOEs in the country.

The President of ICAG said signing of the MoU demonstrated the Institute’s determination to work closely with the government to strengthen public financial management in the accountability and transparency. He stressed that ICAG is well positioned to partner with SEC to execute its mandate of ensuring operational and economic viability of the SOEs. He further reiterated that both ICAG and SEC recognize that an effective public service in Ghana requires enhanced capabilities within the public sector in accounting and audit practice.

The Minister of Finance, Mr. Seth Terkper, who chaired the ceremony commended the two institutions for signing the MoU and indicated that it was timely, and again mentioned a number of steps being taken to ensure effective financial management by the SOEs.

1.3 ICAG Inducts 350 newly qualified accountants

The Institute of Chartered Accountants, Ghana has held an induction course for 350 newly qualified accountants to initiate them into the accountancy profession. The ceremony which was held at the Labadi Beach Hotel was attended by the inductees and some Council members. The induction was to formally introduce the participants to the Institute and the practice of accountancy as newly qualified accountants, and also to admit them as members of the Institute.
The new members were taken through the principles of ethical behavior, stress management, and how to invest in professional excellence, as well as an exposure on sections of the Chartered Accountants Act 1963, Act 170 which may be relevant to them in their practice and work places.

In his welcome address the Finance Minister, Mr. Seth Terpker, justified the increases in taxes, saying the country needs to mobilize enough revenue for development. He said that the challenges the country faced during the energy crises and the loan from the IMF clearly shows that we need revenue mobilization strategy and the easiest of the options is to increase taxes.

Mr Terpker said the Public Services Commission was working with the Ministry of Finance to implement the Human Resource Information Management Systems (HRIMS) as an added advantage to the Ghana Integrated Financial Management Systems (GIFMIS). This would gradually help in the integration of all human resource matters in the GIFMIS and employment into the Civil Service would be streamlined.

The president of the Institute, Professor Kwame Boasiako Omane-Antwi said professional accountants were seen as watchdogs in ensuring the success of organizations. In order to succeed in the working environment, he said accountants should work hard without compromising, cutting corners or adopting 'get-rich-quick' attitudes. He also reiterated the ICAG’s promise to the Electoral Commission to support the Returning Officers in collating electoral results in the up-coming 2016 presidential and parliamentary elections.

The president urged the inductees to uphold the integrity of the profession and help deal with corruption menace which have engulfed the country. He further reminded them to be guided by the principles of integrity, objectivity, professional competence, confidentiality and professional behavior, which are ethical principles which are the pillars of the profession they have joined.

The guest speaker for the occasion Justice Efia Serwaa Asare Botchwey, a high court judge, urged the newly qualified accountants to work hard and not to involve in embezzlement and borrowing from their institutions' coffers.

1.4 The importance of Finance Leadership & Development to a Professional Accountant

Finance leadership and development involves ensuring that professional accountants in business—or finance professionals, as they are often called—respond to the continually changing expectations of their organizations, the financial markets, and society.

“Professional accountants in business” have diverse roles, and support their organizations in a wide range of job functions at various levels. These include:

- Leadership/management: chief executive officer (CEO); chief financial officer (CFO)/financial director (FD); chief operating officer; director of governance or operations; treasurer
- Operational: business unit controller; financial or performance analyst; cost accountant; resources manager; business support manager; systems analyst
- Management control: business assurance manager; risk manager; compliance manager; internal auditor
- Accounting and stakeholder communications: group controller; head of reporting; investor relations manager; financial or management accountant

Finance leadership and development includes:
- Finance and accounting (F&A) function design and effectiveness;
- Preparing for, and enhancing, finance leadership; and
- Finance professionalism and talent management.

Finance leadership is needed in all the various areas covered by F&A, including:
- Transactional and operational finance and accounting;
- Strategic and operational decision support;
- Governance, risk management, and internal control;
- Corporate finance, tax, and treasury; and
- Investor relations.

**Why is Finance Leadership and Development Important?**

Many accountants aspire to finance leadership roles, such as CFO, controller, or chief accounting officer. These roles are often responsible for all financial aspects of the organization, and require increasingly specialized knowledge and technical skills in areas such as financial reporting, tax, and treasury.

Organizations focus on finance leadership and development to ensure that F&A activities support the development and performance of the organization. To add value to their employers and maintain relevance and public trust, professional accountants must fulfill their traditional responsibilities—while increasing their support of strategic and operational decision making. These roles require leadership, strategy, business, management, and interpersonal skills.

**Global Perspective on Finance Leadership and Development**

The past several decades have witnessed significant growth in the demands on, and expectations of, finance leaders—particularly as they have become key to helping their organizations navigate an increasingly complex business world. Finance leaders are now expected to be business partners and to drive organizational performance, as well as strong and ethical, governance and management practices.

Developing finance leadership and professionalism extends to government and public sector organizations, where there is a need for enhanced finance leadership and public financial management to improve the quality of public service accountability and outcomes. The transparency, financial stability, and performance of governments and public sector organizations are closely linked with the quality and professionalization of the CFO and the F&A function.

At the same time, organizations have embraced leaner F&A functions, driven by shared services models, outsourcing, and the impact of technology. These changes have increased efficiency, but have also created potential challenges—such as balancing cost-reduction pressures with service delivery quality. They have also created challenges in managing talent, and in some cases have fragmented career pathways.
The Role of Accountants and the Accountancy Profession

In their various roles, professional accountants provide:

- Stewardship of financial and non-financial performance information. This information is necessary to fulfill compliance with financial reporting standards, risk and internal control requirements, and other regulatory, legal, and market requirements. Stewardship responsibilities have become ever more complex, particularly where they deal with different accounting, tax and treasury, regulatory, and legal environments across multiple jurisdictions.

- Business-partnering: Professional accountants focus on supporting strategy development and execution and facilitating sustainable value creation. Effective business partnering involves managing collaborative relationships and potential conflicts, and being a trusted and proactive partner in decision making.

- Aligning the F&A function with delivering the organization’s objectives requires an effective talent recruitment and management strategy to attract, develop, and retain finance talent and the skill sets required to support stewardship and business partnership responsibilities.

Key aspects and challenges of both stewardship and partnership roles include:

- Demonstrating ethical leadership and business integrity

- Balancing short-term concerns and pressures, such as managing cash, liquidity, and profitability, with long-term vision and sustainable organizational success

- Ensuring effective compliance and control and responding to ever-increasing regulatory developments, including financial reporting, capital requirements, and corporate responsibility

- Providing strategic leadership and ensuring the F&A function supports the business at a strategic and operational level

- Driving and managing change and innovation

- Engaging and communicating effectively with colleagues, investors, customers, suppliers, regulators, and other internal and external stakeholders.

Professional accountants aspiring to become finance leaders need to move beyond carrying out only core F&A responsibilities. To effectively operate as a key member of a leadership and management team, they need a broader perspective and a wider set of capabilities and skills.

The accountancy profession has a critical role to play to ensure that professional accountants acquire and leverage the necessary technical knowledge and professional skills, and perform in finance leadership and broader F&A roles.

It facilitates education, life-long learning, and development of professional accountants, and helps them promote their competence and versatility to employing organizations. Professional accountancy organizations (PAOs) have a key role in ensuring that, in partnership with their members and students, professional accountants develop the right mixture of skills, experiences, and attitudes to succeed in finance leadership and F&A.
Accordingly, in 2008, the Bank of Ghana issued the Branchless Banking Guidelines to provide the framework for harnessing the capabilities of the mobile phone for enhancing access to financial services. The rationale is to offer mobile phone users the opportunity to access banking services without necessarily maintaining bank accounts. The Guidelines provide for a bank-led, bank-based model where customer funds (float) reside with a financial institution.

Mobile banking in this note refers to a range of mobile phone based financial transactions including payments—actual payments that are made with a mobile phone—as well as using a mobile phone to access banking services.

2.0 Telco Partnered Mobile Banking Services

In line with the requirements of the Branchless Banking Guidelines, the following mobile network operators have collaborated with banks to provide mobile banking services:

2.1 MTN Mobile Banking Service

This product is being offered by Scancom Ltd. (MTN) in collaboration with the following banks: Calbank Ltd., Ecobank (Ghana) Ltd, Fidelity Bank Ltd., Guaranty Trust Bank (Ghana) Ltd., Access Bank (Ghana) Ltd., Stanbic Bank (Ghana) Ltd., United Bank for Africa (Ghana) Ltd. and Zenith Bank (Ghana) Ltd.

The MTN Mobile Money service operates over an independent platform (Mobile Banking and Payments Platform) provided by MTN and interconnects the mobile service provider and the partner banks.
The service comprises 5 features;

Ø Money Transfer — Transfer from account to account
   Transfer from account to person
   Transfer from person to person

Ø Cash in/out — Cash deposit into account
   Cash withdrawal from account

Ø Account Management — Balance enquiry

Ø Air top up — Air time purchase

Ø Bill Payment — Utility bills payment

The product was approved and launched on June 03, 2009 and July 21, 2009 respectively and is currently in operation.

2.2 Airtel Money Service
The product is offered by Airtel (Ghana) Ltd., formerly Zain Ghana Limited, in collaboration with Ecobank Ghana Ltd., Standard Chartered Bank (Ghana) Ltd., United Bank for Africa (Ghana) Ltd.

The service operates over an independent platform provided by Airtel and interconnects the mobile service provider and the banks. The service comprises 5 features;

Ø Person to Person funds transfer: - A person is enable to store funds on a mobile wallet and transfer funds to another person's mobile wallet.

Ø Customer to Business funds transfer:- A person is able to make purchase of goods and services from a participating merchant using funds from the mobile wallet.

Ø Business to Business funds transfer:- A wholesaler business selling (goods supplies or services) to a retailing business and using the Mobile Wallet as a means to settle.

Ø Government-to-Consumer funds transfer:- Distribution of social safety net funds into general public's personal Mobile Wallets.

Ø Purchases of airtime:- Purchase of mobile network's airtime using funds from the Mobile Wallet.

The product was approved and launched on January 26, 2010.
2.3 Tigo Cash
Millicom Ghana Limited (Tigo) offers Tigo Cash services in collaboration with Ecobank, UBA and ADB. The product was launched in April 2011 and has the following features:

Ø Cash in and cash out – cash deposit into account, cash withdrawal from account
Ø Person to person transfers – transfer from funds on a person’s mobile wallet into the mobile wallet of another person
Ø Coupon transfers
Ø Airtime - purchase of mobile phone air time
Ø Disbursement/payments – payment for goods and services

The GLO Mobile Money Service was approved and launched on January 26, 2010 and is yet to be launched for operation.

3.0 Payment Solution Providers
These are companies that harness the potential of information technology to provide an array of electronic payment solutions in partnership with banks.

3.1 Afric Xpress Ghana Limited
Afric Xpress Ghana Limited provides a transaction platform for banks to offer mobile money services to their customers.

The system is based on the company’s transaction technology called “txNpay”, and is aimed at promoting e-commerce and digital payments. It is based on mobile phone and enables users to top up air time on all mobile phone networks, undertakes cash deposits, cash withdrawals and funds transfers, and also carries out web-based transactions. Afric Xpress is currently working with Zenith Bank Ghana Ltd. (ZBG), Agricultural Development Bank Ltd. (ADB) and First Atlantic Merchant Bank Ltd. (FAMB).

The product was approved by the Bank of Ghana on January 16, 2009 and launched in April 2009. It is currently operating.

3.2 eTransact Ghana Limited
eTransact Ghana Limited provides an electronic payment platform that enables payments to be made with the use of mobile phone over the internet, POS and ATM for payment of goods and services and also funds transfer. The system has a good audit trail of transactions between merchants and their customers, through their respective banks. The system supports interbank reconciliation and settlement of accounts relating to transactions on the platform on a daily and or weekly basis. The following banks are currently using the platform to provide mobile banking and other electronic payment solutions for their clients: AmalBank Ghana Ltd, Access Bank Ghana Limited, Unibank Ghana Ltd, United Bank for Africa Ghana Ltd (UBA) First Atlantic Merchant Bank, GCB Bank, Energy Bank, Zenith Bank, and Midland Savings and Loans Company

Approval for the product was given by the Bank of Ghana on January 22, 2009 and launched on 27th March, 2009. The company is currently operating mobile banking.
4.0 Usage Trends in Mobile Banking and Payments

Mobile banking and payments enable customers to receive, transfer funds, make payments for goods and services, and obtain bank account information using their mobile phones.

Whilst the use of mobile phone for financial transactions is generally on the increase in Ghana, mobile payments, popularly called mobile money, is experiencing a rapid increase compared with mobile banking and therefore has become synonymous with mobile banking.

4.1 Subscriber and Agent Base

Mobile money service was introduced in Ghana in 2010 with the launching of MTN Mobile Money. Tigo and Airtel also followed with Tigo Cash and Airtel money respectively.

As at December 2014 there were 5,424,650 registered clients and 26,889 registered mobile money agents nationwide.

These figures indicate 64.19% and 53.94% increase over the 2013 figures respectively. The proportion of 2014 registered clients and registered agents considered active were 43.68% and 77.06% respectively. These show marked improvement on the 2013 equivalents of 29.16% and 59.56% respectively. The proportion of active clients and agents for 2012 and 2011 were below 25% and 50% respectively.

Enrolment of mobile money clients and agents was slow between 2010 and 2012. However, 2013 marked a turning point in consumers' acceptance of the product, leading to the impressive increase in subscriber base in 2014.

The advent of mobile money as a payment tool has made it possible for rural communities to access financial services where formal financial infrastructure is lacking. Mobile money is much more accessible to any ordinary Ghanaian because of the numerous agents spread all over the country.

The table below shows comparative figures for mobile money (MM) transactions.

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>Annual Growth 2015 (%)</th>
<th>Annual Growth 2014 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of mobile phone</td>
<td>25,618,427</td>
<td>28,026,482</td>
<td>30,360,771</td>
<td>32,826,405*</td>
<td>8.12</td>
<td>8.33</td>
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<tr>
<td>subscribers (Cumulative)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Registered mobile money customers</td>
<td>3,778,374</td>
<td>4,393,721</td>
<td>7,167,542</td>
<td>13,120,367</td>
<td>83.05</td>
<td>63.13</td>
</tr>
<tr>
<td>(Cumulative)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active mobile money customers</td>
<td>345,434</td>
<td>991,780</td>
<td>2,526,588</td>
<td>4,868,569</td>
<td>92.69</td>
<td>154.75</td>
</tr>
<tr>
<td>(Cumulative)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Registered Agents (Cumulative)</td>
<td>8,660</td>
<td>17,492</td>
<td>26,889</td>
<td>79,747</td>
<td>196.58</td>
<td>53.72</td>
</tr>
<tr>
<td>Active Agents</td>
<td>5,900</td>
<td>10,404</td>
<td>20,722</td>
<td>56,270</td>
<td>171.55</td>
<td>99.17</td>
</tr>
<tr>
<td>Total volume of transactions</td>
<td>18,042,241</td>
<td>40,853,559</td>
<td>113,179,738</td>
<td>266,246,537</td>
<td>135.24</td>
<td>177.04</td>
</tr>
<tr>
<td>GH¢ Million</td>
<td>594.12</td>
<td>2,652.47</td>
<td>12,123.89</td>
<td>35,444.38</td>
<td>192.35</td>
<td>357.08</td>
</tr>
<tr>
<td>Balance on Float (GH¢ Million)</td>
<td>19.59</td>
<td>62.82</td>
<td>223.33</td>
<td>547.96</td>
<td>145.36</td>
<td>255.51</td>
</tr>
</tbody>
</table>

Source: BOG, Payment System Statistics 2016
4.2 Transactional Analysis
In line with the growth in subscriber base, mobile money transactions in 2015 recorded high growth rate of 135.24% in volume and 192.35% in value compared with those of 2014 levels. Similarly, mobile money float increased from GH¢ 62,809,945 in 2013 to GH¢ 223,325,189 in 2014, representing an increase of 255.56%.

Though cash remains the preferred means of payments in Ghana, the appeal of mobile money as a secure, reliable, fast, affordable and efficient means of funds transfer is gaining wide acceptance among the population. Individuals and small and medium enterprises in particular, use the system to transfer funds for social and business purposes respectively. In many instances, business persons use mobile money as a secure wallet on which funds are stored for business travels to purchase goods for sale. The appeal of mobile money is enhanced in areas where financial infrastructure is lacking but mobile network is available; and where armed robbers harass traders.

Mobile money has not been significant for the payment of goods and services at the retail points. However, it is increasingly being used for the payment of utility bills and dstv bills. The use of mobile money for retail purchases is set to grow as partnership is forged with merchants for acceptance of mobile payments at point of sale and more online shops accept mobile money as a means of payment. Currently, Supershop, Zoobashop, Kaynu, Jumia and Hello Foods are some of the online shops that accept mobile money for online payment.

4.3 Financial Institutions Products and Services
In line with the Guidelines, some mobile network operators have partnered with banks to offer banking services using the mobile phone as the access point. Airtel Money, for instance, has partnered with Standard Chartered, Zenith Bank and Ecobank, to allow subscribers transfer money from their Airtel Money wallet to their bank account and vice versa. Savings and loans repayment transactions are also executed on Airtel money platform with partner banks. This has extended the reach of banking services and assisted in deposit mobilization into the formal financial system.

Mobile network operators have also partnered with insurance companies to sell insurance products. Premiums are paid from mobile money wallets of subscribers. Tigo offers free life insurance to subscribers who sign on to the Tigo Family Care Insurance. By using more Tigo airtime, the subscriber and a registered family member get more insurance cover. Airtel money currently has over 100,000 subscribers on its insurance product.

MTN mobile money subscribers can receive international remittances in cedis on their wallet through the Homesend platform of Belgacom International Carrier Service (BICS). The service is offered in partnership with Fidelity Bank Ghana limited which handles settlement and foreign exchange transactions issues. The limit per transaction per customer is US$500, and the monthly cumulative transaction limit per customer is US$1,500. The service provides a relatively cheaper but secure system for Ghanaians abroad to send money home without incurring high funds transfer charges which range from 3% to 10%.
Mobile money subscribers can also withdraw cash at ATMs without having an ATM card further widening cash access options for mobile money users.

4.4 Fraud and Service Interruption
Mobile money in Ghana has been safe from the activities of fraudsters in terms of system security and design. However, a few fraud cases have been reported, which were due to negligence or lack of vigilance on the part of subscribers in making payment to strangers for goods or services to be received later. Mobile money operators have stepped up customer education on making digital payments.

The mobile money industry had been relatively stable since 2010 until 2014 when Tigo Cash and MTN mobile money experienced disruptions in service delivery. MTN mobile money suffered the biggest disruption in the industry's history which lasted for three weeks, 18th September 2014 to 10th October 2014. The service disruption experienced by both Tigo and MTN were related to USSD channel challenges.

5.0 Investment in Infrastructure
Within the past two years, mobile network operators have been investing in new infrastructure in order to meet the anticipated demand in mobile money services in Ghana. Airtel Money has migrated from the Zap platform it started with onto a new platform called Mobiquity. The new platform is expected to provide a secure and resilient mobile money services. Tigo Cash has spent approximately US$2.99 million within 2013 and 2014 to enhance its operations. During the same period, MTN spent a total of US$5.55 million to improve its infrastructure base.

A total of US$1.55 million was spent on hardware expansion, whilst US$4.0 million has been spent on a new platform (Ericsson Converged Wallet Solution). The new platform is expected to be completed by the end of second quarter of 2015. MTN anticipates the new platform would position it to expand service reach and offerings.

6.0 Regulatory Concerns
The Branchless Banking Guidelines prescribes a mobile money delivery model which is bank-led, bank-base and many-to-many. This means that banks should lead in investing in the ecosystem, sign on and own agents, manage the agents, and must not sign exclusivity agreements with mobile network operators.

Since banks thrives on scope and scale, being responsible for a large number of these agents scattered across the country is not attractive in terms of cost, time and efforts, in view of the small values of transactions and returns. Also, non-exclusivity requirements mean that any investment by a bank in the many-to-many relationship would encourage free riding by the other banks in the relationship. Banks therefore shirked on investing in the space, accounting for the slow uptake of mobile money in Ghana. Most of the investments in the mobile money space in Ghana have therefore been undertaken by mobile network operators.

These are in the form of advertisement, agents' recruitment and management, training, liquidity provision etc.
In order to provide the right incentives for scaling up mobile money in Ghana, the Banking Department of Bank of Ghana has drafted a document called electronic money issuers guidelines to address the problems with the Branchless Banking Guidelines. The draft document received a lot of inputs from mobile network operators, banks, and expert advice from international bodies such as Consultative Group for Assisting the Poor (CGAP) Alliance for Financial Inclusion (AFI) among others.

7.0 Challenges
Promoting mobile money is essentially a project of behavioural change. This requires the support of the state since the benefits of a cash-less society would bring enormous benefits to the country. Considering the cost involved in prosecuting this agenda, a lot of resources would have to be expended on public education to increase adoption and usage.

Also, the low transactions limits restrict the use of the product. A risk-based approach to setting the transaction limits would go a long way to encourage patronage. Furthermore, constant shortage of liquidity and digital money at agents' outlets detract people from the appeal of the product. Measures should be put in place to ensure regular availability of liquidity and digital money at agents' points to meet customer needs.

8.0 Risks in Mobile Money
In spite of the numerous positive impacts emanating from the use of products provided by Telcos, there are some associated risks which have to be managed since they have brought some mistrust in the payment system. These risks include the following:

- **Consumer Related**: Fraudulent customers blacklisted from one operator continuing to work under another operator due to lack of centralized blacklist management system. Also PIN secrecy rules are not enforced and therefore relatives and agents get access to customer account and defraud them.

- **Agent Related**: Agents access customer accounts while supporting them and withdraw additional funds when not authorized. Dismissed agents from one operator sometimes continue to work for another operator because of the absence of a centralized blacklist management system for agents.

- **System Related**: System unavailability prevents access to funds. There is also duplication of transactions especially during a power surge or some other system interruptions.

- **Money Laundering**: Mobile money platforms can be used as a major avenue for money laundering. The issue of money laundering can however be dealt with through the implementation of KYC provisions and transaction limits set for various categories of users.

9.0 Conclusion
Mobile Financial Services offer significant opportunities for improving the efficiency of financial services by expanding access and lowering transaction costs. The rapid public acceptance of these services in many countries, including the Philippines, Brazil, India, Uganda, Tanzania and Kenya has demonstrated that the technology is mature and brings real benefits to people who previously could not access financial products or services.

The introduction of Mobile Money in Ghana has significantly changed the payment landscape in Ghana. Access to financial services, especially in rural areas, continues to increase as a result of Mobile Money operations.
This has brought about convenience and cost savings to those who use these services. The introduction of Mobile Money is likely to increase competition among players in the payment landscape and this will bring about efficiency and cost effectiveness in the delivery of payment services.

There are however a few risk issues such as money laundering, system disruptions as well as fraud by users and agents. The new Electronic Money Issuers and Agent Guidelines which has been approved by Management has made adequate provisions to deal with KYC and money laundering issues.

The telecommunication industry remains a pivotal partner in the efficient delivery of payment services and should be encouraged to do so. There should however be regulations that will allow for proper supervision over financial services they offer. It is worth noting that the new E-Money Issuers Guidelines has made adequate provisions for the supervision of financial services that the telecommunication companies offer.

1.6 IFRS 15 — Revenue from Contracts with Customers

Overview

IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

IFRS 15 was issued in May 2014 and applies to an annual reporting period beginning on or after 1 January 2018.

Objective

The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. [IFRS 15:1] Application of the standard is mandatory for annual reporting periods starting from 1 January 2018 onwards. Earlier application is permitted.

Superseded Standards

IFRS 15 replaces the following standards and interpretations:

IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 18 Transfers of Assets from Customers; SIC-31 Revenue - Barter Transactions Involving Advertising Services

Scope

IFRS 15 Revenue from Contracts with Customers applies to all contracts with customers except for: leases within the scope of IAS 17 Leases; financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures; insurance contracts within the scope of IFRS 4 Insurance Contracts; and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. [IFRS 15:5]
A contract with a customer may be partially within the scope of IFRS 15 and partially within the scope of another standard. In that scenario: [IFRS 15:7] if other standards specify how to separate and/or initially measure one or more parts of the contract, then those separation and measurement requirements are applied first.

The transaction price is then reduced by the amounts that are initially measured under other standards if no other standard provides guidance on how to separate and/or initially measure one or more parts of the contract, then IFRS 15 will be applied.

Key definitions

[IFRS 15: Appendix A]

Contract: An agreement between two or more parties that creates enforceable rights and obligations.

Customer: A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

Income: Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in an increase in equity, other than those relating to contributions from equity participants.

Performance obligation: A promise in a contract with a customer to transfer to the customer either: a good or service (or a bundle of goods or services) that is distinct; or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Revenue: Income arising in the course of an entity's ordinary activities.

Transaction price: The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Accounting requirements for revenue

The five-step model framework:

The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework: [IFRS 15:IN7]

1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

Application of this guidance will depend on the facts and circumstances present in a contract with a customer and will require the exercise of judgment.

Step 1: Identify the contract with the customer
A contract with a customer will be within the scope of IFRS 15 if all the following conditions are met: [IFRS 15:9]

• the contract has been approved by the parties to the contract;
• each party's rights in relation to the goods or services to be transferred can be identified;
the payment terms for the goods or services to be transferred can be identified;
• the contract has commercial substance; and
• it is probable that the consideration to which the entity is entitled to in exchange for the goods or services will be collected.

If a contract with a customer does not yet meet all of the above criteria, the entity will continue to re-assess the contract going forward to determine whether it subsequently meets the above criteria. From that point, the entity will apply IFRS 15 to the contract. [IFRS 15:14]

The standard provides detailed guidance on how to account for approved contract modifications. If certain conditions are met, a contract modification will be accounted for as a separate contract with the customer. If not, it will be accounted for by modifying the accounting for the current contract with the customer. Whether the latter type of modification is accounted for prospectively or retrospectively depends on whether the remaining goods or services to be delivered after the modification are distinct from those delivered prior to the modification. Further details on accounting for contract modifications can be found in the Standard. [IFRS 15:18-21].

Step 2: Identify the performance obligations in the contract

At the inception of the contract, the entity should assess the goods or services that have been promised to the customer, and identify as a performance obligation: [IFRS 15.22]

• a good or service (or bundle of goods or services) that is distinct; or
• a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A series of distinct goods or services is transferred to the customer in the same pattern if both of the following criteria are met: [IFRS 15:23]

• each distinct good or service in the series that the entity promises to transfer consecutively to the customer would be a performance obligation that is satisfied over time (see below); and
• a single method of measuring progress would be used to measure the entity’s progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the customer.

A good or service is distinct if both of the following criteria are met: [IFRS 15:27]

• the customer can benefit from the good or services on its own or in conjunction with other readily available resources; and
• the entity’s promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

Factors for consideration as to whether a promise to transfer the good or service to the customer is separately identifiable include, but are not limited to: [IFRS 15:29]

• the entity does not provide a significant service of integrating the good or service with other goods or services promised in the contract.
• the good or service does not significantly modify or customise another good or service promised in the contract.
• the good or service is not highly interrelated with or highly dependent on other goods or services promised in the contract.
Step 3: Determine the transaction price

The transaction price is the amount to which an entity expects to be entitled in exchange for the transfer of goods and services. When making this determination, an entity will consider past customary business practices. [IFRS 15:47]

Where a contract contains elements of variable consideration, the entity will estimate the amount of variable consideration to which it will be entitled under the contract. [IFRS 15:50]

Variable consideration can arise, for example, as a result of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. Variable consideration is also present if an entity's right to consideration is contingent on the occurrence of a future event. [IFRS 15:51]

The standard deals with the uncertainty relating to variable consideration by limiting the amount of variable consideration that can be recognised. Specifically, variable consideration is only included in the transaction price if, and to the extent that, it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved. [IFRS 15:56]

However, a different, more restrictive approach is applied in respect of sales or usage-based royalty revenue arising from licences of intellectual property. Such revenue is recognised only when the underlying sales or usage occur. [IFRS 15:B63]

Step 4: Allocate the transaction price to the performance obligations in the contracts

Where a contract has multiple performance obligations, an entity will allocate the transaction price to the performance obligations in the contract by reference to their relative stand-alone selling prices. [IFRS 15:74] If a stand-alone selling price is not directly observable, the entity will need to estimate it. IFRS 15 suggests various methods that might be used, including: [IFRS 15:79] Adjusted market assessment approach, Expected cost plus a margin approach, and Residual approach (only permissible in limited circumstances).

Any overall discount compared to the aggregate of stand-alone selling prices is allocated between performance obligations on a relative stand-alone selling price basis. In certain circumstances, it may be appropriate to allocate such a discount to some but not all of the performance obligations. [IFRS 15:81]

Where consideration is paid in advance or in arrears, the entity will need to consider whether the contract includes a significant financing arrangement and, if so, adjust for the time value of money. [IFRS 15:60] A practical expedient is available where the interval between transfer of the promised goods or services and payment by the customer is expected to be less than 12 months. [IFRS 15:63]

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Revenue is recognised as control is passed, either over time or at a point in time. [IFRS 15:32]

Control of an asset is defined as the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. This includes the ability to prevent others from directing the use of and obtaining the benefits from the asset. The benefits related to the asset are the potential cash flows that may be obtained directly or indirectly. These include, but are not limited to: [IFRS 15:31-33]
• using the asset to produce goods or provide services;
• using the asset to enhance the value of other assets;
• using the asset to settle liabilities or to reduce expenses;
• selling or exchanging the asset;
• pledging the asset to secure a loan; and
• holding the asset.

An entity recognises revenue over time if one of the following criteria is met: [IFRS 15:35]

• the customer simultaneously receives and consumes all of the benefits provided by the entity as the entity performs;
• the entity's performance creates or enhances an asset that the customer controls as the asset is created; or
• the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If an entity does not satisfy its performance obligation over time, it satisfies it at a point in time. Revenue will therefore be recognised when control is passed at a certain point in time. Factors that may indicate the point in time at which control passes include, but are not limited to: [IFRS 15:38]

• the entity has a present right to payment for the asset;
• the customer has legal title to the asset;
• the entity has transferred physical possession of the asset;
• the customer has the significant risks and rewards related to the ownership of the asset; and
• the customer has accepted the asset.

Contract costs

The incremental costs of obtaining a contract must be recognised as an asset if the entity expects to recover those costs. However, those incremental costs are limited to the costs that the entity would not have incurred if the contract had not been successfully obtained (e.g. 'success fees' paid to agents). A practical expedient is available, allowing the incremental costs of obtaining a contract to be expensed if the associated amortisation period would be 12 months or less. [IFRS 15:91-94]

Costs incurred to fulfil a contract are recognised as an asset if and only if all of the following criteria are met: [IFRS 15:95]

• the costs relate directly to a contract (or a specific anticipated contract);
• the costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future; and
• the costs are expected to be recovered.

These include costs such as direct labour, direct materials, and the allocation of overheads that relate directly to the contract. [IFRS 15:97]

The asset recognised in respect of the costs to obtain or fulfil a contract is amortised on a systematic basis that is consistent with the pattern of transfer of the goods or services to which the asset relates. [IFRS 15:99]

Further useful implementation guidance in relation to applying IFRS 15. These topics include: Performance obligations satisfied over time; Methods for measuring progress towards complete satisfaction of a performance obligation; Sale with a right of return; Warranties; Principal versus agent considerations; Customer options for additional goods or services; Customers' unexercised rights; Non-refundable upfront fees; Licensing; Repurchase arrangements; Consignment arrangements; Bill-and-hold arrangements; Customer acceptance; Disclosures of disaggregation of revenue.
These topics should be considered carefully when applying IFRS 15.

**Presentation in financial statements**

Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. [IFRS 15:105]

A contract liability is presented in the statement of financial position where a customer has paid an amount of consideration prior to the entity performing by transferring the related good or service to the customer. [IFRS 15:106]

Where the entity has performed by transferring a good or service to the customer and the customer has not yet paid the related consideration, a contract asset or a receivable is presented in the statement of financial position, depending on the nature of the entity's right to consideration.

A contract asset is recognised when the entity's right to consideration is conditional on something other than the passage of time, for example future performance of the entity. A receivable is recognised when the entity's right to consideration is unconditional except for the passage of time.

Contract assets and receivables shall be accounted for in accordance with IFRS 9. Any impairment relating to contracts with customers should be measured, presented and disclosed in accordance with IFRS 9. Any difference between the initial recognition of a receivable and the corresponding amount of revenue recognised should also be presented as an expense, for example, an impairment loss. [IFRS 15:107-108]

**Disclosures**

The disclosure objective stated in IFRS 15 is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Therefore, an entity should disclose qualitative and quantitative information about all of the following: [IFRS 15:110]

- its contracts with customers;
- the significant judgments, and changes in the judgments, made in applying the guidance to those contracts; and
- any assets recognised from the costs to obtain or fulfil a contract with a customer.

Entities will need to consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the requirements. An entity should aggregate or disaggregate disclosures to ensure that useful information is not obscured. [IFRS 15:111]

In order to achieve the disclosure objective stated above, the Standard introduces a number of new disclosure requirements. Further detail about these specific requirements can be found at IFRS 15:113-129.

**Effective date and transition**

The standard should be applied in an entity's IFRS financial statements for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. An entity that chooses to apply IFRS 15 earlier than 1 January 2018 should disclose this fact in its relevant financial statements. [IFRS 15:C1]
When first applying IFRS 15, entities should apply the standard in full for the current period, including retrospective application to all contracts that were not yet complete at the beginning of that period. In respect of prior periods, the transition guidance allows entities an option to either: [IFRS 15:C3]

- apply IFRS 15 in full to prior periods (with certain limited practical expedients being available); or
- retain prior period figures as reported under the previous standards, recognising the cumulative effect of applying IFRS 15 as an adjustment to the opening balance of equity as at the date of initial application (beginning of current reporting period).

SPECIFIC EXAMPLES

SALE OF GOODS HELD FOR RESALE

1. Bill and hold' sales which delivery is delayed at the buyer's request but the buyer takes title and accepts billing.

Revenue is recognized when the buyer takes title, provided it is probable that delivery will be made, and the item is on hand, identified and ready for delivery to the buyer at the time the sale is recognized. Revenue is not recognized when there is simply an intention to acquire or manufacture the goods in times of delivery.

2. Goods shipped subject to conditions
   a. Installation and inspection: Revenue is normally recognized when the buyer accepts delivery and installation and inspection is completed.

   However revenue is recognized immediately the buyer accepts delivery when the installation is simple in nature and the inspection is performed only for purposes of final determination of contract prices, for example, shipments of iron ore, sugar, or soya beans.

b. On approval when the buyer has negotiated a limited right of return: Revenue is recognized when the shipment has been formally acceptable to the buyer or the goods have been delivered and the time period of the reject has elapsed.

c. Guaranteed sales in which the seller has granted all buyers unlimited right of return: In the case of normal retail sales, revenue is recognized at the time of sale provided the seller can reasonably estimate future returns and recognizes liability for returns based on previous experience and other relevant factors. In other cases, the substance of the agreement may amount to sale on consignment, in which case it should be treated as indicated below.

d. Consignment sales under which the recipient (buyer) undertakes to sell the goods on behalf of the shipper (seller): Revenue is recognized by the shipper when the goods are sold by the recipient to a third party.

e. Cash on delivery sales: Revenue is recognized when delivery is made and cash is received by the seller or its agent.

3. Lay away sales under which the goods are delivered only when buyer makes final payment in series of installments

Revenue from such sales is recognized when the goods are delivered.
However, when experience indicates that most of such sales are consummated, revenue may be recognized when a significant deposit is received provided the goods are on hand, identified and ready for delivery to the buyer.

4. **Order when payment or partial payment is received in advance of delivery for goods not presently held in inventory, eg. the goods are still to be manufactured or will be delivered directly to the customer from a third party:**
   Revenue is recognized when the goods are delivered by the buyer.

5. **Sales to intermediate parties such as distributors, dealers or others for resale:**
   Revenue from such sales is generally recognized when the risks and rewards of ownership have passed. However, when the buyer is acting, in substance as an agent, the sale is treated as a consignment sale.

6. **Publication and other similar subscriptions**
   When the items involved are of similar value in each time period, revenue is recognized on a straight line basis over time. When the items vary in value from period to period, revenue is recognized on the basis of the sales value of the item dispatched in relation to the total estimated sales of all items covered by the subscription.

7. **Installment sales, under which the consideration is receivable in installments**
   Revenue attributable to the sales price, exclusive of interest, is recognized at the date of sale.

8. **Real estate sales**
   Revenue is normally recognized when legal title passes to the buyer. However, in some jurisdiction, the equitable interest in the property may vest in the buyer before legal title passes and therefore the risks and rewards of ownership have been transferred at that stage. In such cases, provided that the seller has no further substantial acts to complete under the contract, it may be appropriate to recognize revenue. In either case, if the seller is obliged to perform any significant acts after the transfer of the equitable and/or legal title, revenue is recognized as the acts are performed. An example is a building or other facility on which construction has not been completed.

**RENDERING OF SERVICES**

1. **Installation fees**
   Installation fees are recognized as revenue by reference to the stage of completion of the installation, unless they are incidental to a sale of a product.

2. **Servicing fees included in the price of the product**
   When the selling price of a product includes an identifiable amount for subsequent servicing, (for example, after sale support and product enhancement on the sale of a software), that amount is deferred and recognized as revenue over the period during which the service is performed.
The amount deferred is that which will cover the expected costs of the services under the agreement, together with a reasonable profit on those services.

3. Advertising commission
Media commissions are recognized when the related advertisement or commercial appears before the public. Production commissions are recognized by reference to the stage of completion of the project.

4. Insurance Agency commission
Insurance agency brokerage and commissions are recognized on the effective commencement or renewal dates of the related policies. Commission adjustments resulting from claims experience, policy cancellations, changes in premiums or changes in the coverage of policies written by the agent are recognized when they can be reliably estimated. When it is probable that the policy will need servicing during its life, the commission or part thereof is deferred and recognized as revenue over the period during which the servicing is performed.

5. Financial services fees
The recognition of revenue for financial services fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Therefore it is necessary to distinguish between fees which are an integral part of the effective yield of a financial instrument, fees which are earned as services are provided, and fees which are earned on the execution of a significant act.

a. Fees which are an integral part of the effective yield of a financial instrument: Such fees are generally treated as an adjustment to the effective yield, however, when the financial instrument is measured at fair value subsequent to its initial recognition, the fees are recognized as revenue when the instrument is initially recognized. Specific examples are as follows:

   • **Origination fees received by an enterprise relating to creation or acquisition of a financial instrument which is held by the enterprise as an investment:** - Such fees may include compensation for activities such as evaluating the borrowers' financial conditions, evaluating the recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an on-going involvement with the resultant financial instrument and, together with the related direct costs, are deferred and recognized as an adjustment.

   • **Commitment fees received by the enterprise to originate or purchase a loan:** - If it is probable that the enterprise will enter into a specific lending arrangement, the commitment fee received is regarded as compensation for an on-going involvement with the acquisition of a financial instrument and, together with the related direct costs, is deferred and recognized as an adjustment to the effective yield. If the commitment expires without the enterprise making the loan, the fee is recognized as a revenue immediately.

b. Fees earned as services are rendered. Specific examples are the following:
Fees charged for servicing a loan: - Fees charged by an enterprise for servicing a loan are recognized as a revenue as the services are provided. If the enterprise sells a loan but retains the servicing of that loan at a fee which is lower than a normal fee for such services, part of the sale price of the loan is deferred and recognized as revenue as the servicing is provided.

Commitment fees to originate or purchase a loan: - If it is unlikely that a specific lending arrangement will be entered into, the commitment fee is recognized as a revenue on a time proportion basis over the commitment period.

c. Fees earned on the execution of a significant act, which is much more significant than any other acts. - The fees are recognized as revenue when the significant act has been completed, as in the examples below:
  * Commission on the allotment of shares to a client: - the commission is recognized as a revenue when the shares have been allotted.
  * Placement fees for arranging a loan between a borrower and an investor: - The fee is recognized as a revenue when the loan has been arranged.
  * Loan syndication: - A syndication fee received by an enterprise which arranges a loan and which retains no part of the loan package for itself (or retains a part at the same effective yield for comparable risk as other participants) is compensation for the service of syndication. Such a fee is recognized as a revenue when the syndication has been completed. However, where the syndicator retains a portion of the loan package at an effective yield for comparable risk which is lower than that earned by other participants in the syndicate, part of the syndication fee relates to the risk retained. The relevant portion of the fee is deferred and recognized as an adjustment to the effective yield of the investment.

6. Admission fee
Revenue from artistic performances, banquets and other special events is recognized when the event takes place. When the subscription to a number of events is sold, the fee is allocated to each event on a basis which reflects the extent to which services are performed at each event.

7. Tuition fees
Revenue is recognized over the period of instruction.

8. Initiation, entrance and membership fees
Revenue recognition depends on the nature of the services provided. If the fee permits only membership, and all other services or products are paid for separately, or if there is separate annual subscription, the fee is recognized as revenue when no significant uncertainty as to its collectability exists. If the fees entitle the member to services or publications to be provided during the membership period or to purchase goods or services at prices lower than those charged to non-members, it is recognized on a basis that reflects the timing, nature and value of the benefits provided.
9. Franchise fees
Franchise fee may cover supply of initial and subsequent services, equipment and other tangible assets and know-how. Accordingly, franchise fees are recognized as revenue on a basis that reflects the purpose for which the fees are charged.

10. Fees from the development of customized software
Fees from the development of customized software are recognized as revenue by reference to the stage of completion of the development, including completion of services provided for post-delivery service support.

INTEREST, ROYALTIES AND DIVIDENDS

1. Fees and royalties paid for the use of an enterprise's assets (such as trademarks, patents, software, music copyright, record masters, and motion picture films) are normally recognized in accordance with the substance of the agreement. As a practical matter, this may be on a straight line basis over the life of the agreement, for example, when a licensee has the right to use certain technology for a specified period of time.

2. An assignment of rights for a fixed fee or non-refundable guarantee under a non-cancellable contract which permits the licensee to exploit those rights freely and the licensor has no remaining obligations to perform is, in substance, a sale. An example is a licensing agreement for the use of software when the licensor has no obligations subsequent to delivery.

Another example is the granting of rights to exhibit a motion picture film in markets where the licensor has no control over the distributor and expects to receive no further revenues from the box office receipts. In such cases, revenue is recognized at the time of sale.

3. In some cases, whether or not a licence fee or royalty will be received is contingent on the occurrence of a future event. In such cases, revenue is recognized only when it is reasonably assured that fee or royalty will be received, which is normally when the event has occurred.

PRACTICE QUESTION

Q1. A generous benefactor donates raw materials to an enterprise for use in its production process. The materials had cost the benefactor GHC 300,000 at the time of donation. The materials are still on hand at the statement of financial position date. No entry has been made in the books of the enterprise. The question is whether the donation should be recognized as revenue in the books of the enterprise.

SOLUTION

The proper accounting treatment of the above is as follows:
- The accounting standard that deals with inventories, IAS 2, provides no guidance on the treatment of inventory acquired by donation.
However, donations received meet the definition of revenue in IAS 18 (i.e., the gross inflow of economic benefits during the period arising in the course of ordinary activities when those inflows result in increase in equity, other than increases relating to contributions from equity participants). It could be argued that receiving a donation is not part of the ordinary course of activities. In such a case the donation would be regarded as a capital gain. For purposes of this situation, the donation is regarded as revenue.

- The donations should be recorded as revenue measured at its fair value (GHC 300,000) of the raw materials received (as that is the economic benefit).
- The debit clearly meets the Framework's definition of an asset, because the raw material (resource) is now owned (controlled) by the corporation as a result of the donation (past event) from which a profit can be made in the future (future economic benefits). The recognition criteria of the Framework, namely those of measurability and probability, are also satisfied.
- As the debit coming from the donation relates to trading items, it should be disclosed as inventory, with the fair value of GHC300,000 at the acquisition date being treated as the cost thereof.

In the US, financial gearing is referred to as 'leverage'. Prior charge capital is capital which has a right to payment of interest or preference dividend before there can be any earnings for ordinary shareholders. It also has a prior claim on the company's assets in the event of a winding up or liquidation. Prior charge capital is usually regarded as consisting of any preference share capital plus interest-bearing debt.

**Gearing ratios - low and high**

A company which is financed mainly by equity capital is said to be lowly geared. The higher the proportion of prior charge capital, the higher the gearing ratio. A highly geared company is one in which the equity capital (including reserves) is less than prior charge capital. A company is lowly geared if the gearing ratio is less than 50%, highly geared if the ratio is over 50% and neutrally geared if it is exactly 50%.

The financial gearing of a company may have an important impact on management decisions. A company that is highly geared with heavy interest charges to meet is unlikely to be in a better position to withstand movement in business cycles. Similarly, a company that is lowly geared may be viewed as being in a better position to withstand uncertainties in business because its financing charges are not so high.

**The effect of gearing on cost of capital**

A company has to consider the effect of gearing on its cost of capital. This is because a firm’s cost of capital is dependent on its level of capital gearing (capital structure).

There are however, two main theories about the effect of changes in gearing on the corporate weighted average cost of capital (WACC) and share values.
These are: (a) the traditional view and (b) the net operating income approach, for which a behavioural justification was provided by Modigliani and Miller, (M & M) (1958).

**Traditional view of gearing and WACC**

The traditional view assumes that as the level of gearing increases, the cost of debt remains unchanged up to a certain level of gearing. Beyond this 'significant' level, that is, when the amount of debt capital has reached a certain size, the cost of debt will increase. As the cost of equity rises, the level of gearing increases. WACC does not therefore remain constant but rather falls initially as the proportion of debt capital increases and then begins to increase as the rising cost of equity and possibly of debt becomes more significant. According to the traditional view, the optimum level of gearing is where the company's WACC is minimised. The traditional theory believes that as long as the levels of borrowing are below a certain critical level, the risks to shareholders are negligible and consequently they do not require a risk premium in the return. The traditional view is that WACC, when measured against the level of gearing, is saucer shaped. Therefore, the optimum capital structure is where WACC is lowest.

**Net Operating Income Approach**

According to this approach, there is no optimal capital structure. The financing mix does not affect the average cost of capital of the company; and the total value of the firm remains unchanged. This alternative theory has received a great deal of attention mainly because of the theoretical and empirical work of M & M. The theory implies that the value of the firm is independent of the proportion of debt to total capitalisation. Irrespective of the effect of the debt/equity ratio on interest rates, the capitalisation rate on equity will change by an amount just sufficient to effect any possible saving or losses on the interest charge. As gearing increases, WACC will remain constant, and so no optimal level of capital gearing exists.

The basis of M&M thesis is an arbitrage with changes in the process. Arbitrage is trading in shares or securities and debt to profit by different prices in different companies or markets.

M & M assume that individuals can borrow and lend at the same rate of interest as companies. They assert that with this assumption, the capital structure of a firm does not matter because whatever the financing mix, the market value of the firm will be the same. Assuming the validity of the assumption, the arbitrage process is shown to be correct. If we have two companies identical in all respects, except their level of gearing, and if one of the firms had a higher market value than the other, the shareholders would engage in arbitrage until both companies were of the same value.

This means that shareholders would sell the shares of the higher valued company and buy shares in the lower valued company until the share price of both companies reaches equilibrium.

** Arbitrage – an illustration**

Let us consider two companies - Ungeared plc and Geared plc, in the same risk class. These companies are identical in all respects except that Ungeared plc is financed entirely by equity (100% equity or debt free) whereas the capital structure of Geared plc includes N150,000 at 5% interest. It will be assumed that the earnings of both companies (before interest) are the same - N60,000 per annum, and we will begin by considering the traditional view of the cost of capital and suppose that the cost of equity in Ungeared plc is 10% and in Geared plc is higher at 11%.
<table>
<thead>
<tr>
<th>Ungeared Plc</th>
<th>Geared Plc</th>
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</thead>
<tbody>
<tr>
<td>Earnings</td>
<td>60,000</td>
</tr>
<tr>
<td>Debt Interest (5%)</td>
<td>-</td>
</tr>
<tr>
<td>Available for Equity</td>
<td>60,000</td>
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(Earnings = Dividends)

Assume cost of Equity
- 10%                          - 11%

Market value of Equity
- 600,000                      - 477,273

Market value of Debt
-                                - 150,000

Market value of Firm
- 600,000                      - 627,273

Weighted Average Cost of Capital (WACC)
- 10%                          - 9.6%

Gearing Ratio
- 0%                          - 23.9%

M & M's Proposition

The two companies, identical in every respect except their gearing, are therefore assumed by the traditional view to have different market values. M & M (1958) argue that this situation could not last for long because investors in Geared plc would soon see that they could get the same return for a smaller investment by investing in Ungeared plc. Exercising arbitrage, they would sell their shares in Geared plc and buy shares in Ungeared plc.

This sale would:
- drive up the price of Ungeared plc shares (thereby lowering the cost of the equity capital); and
- force down the price of Geared plc shares (thereby raising the cost of its equity capital) until the total market value of each company is the same. Arbitrage would then cease.

The Arbitrage Process

Arbitrage would occur as follows: Suppose Mr Banwo owns 5% of the equity in Geared plc. These would have a market value of (5% x N477,273) = N23,864. He would notice that Ungeared plc makes the same annual earnings as Geared plc (N60,000) but with a smaller investment (N600,000 compared to N627,273). He would therefore take the following steps:

Sell his shares in Geared plc for N23,864.
- Borrow N7,500 at 5% interest. This amount is equivalent to 5% of the debt of Geared plc (N150,000 at 5%). In this way, Mr Banwo would have substituted personal gearing for the corporate gearing of Geared plc. His assets would be as follows:

N23,864 (from the sale of his shares)
7,500 (borrowed at 5%)
31,364 (which is 5% of the value of Geared plc)

Mr Banwo’s personal gearing ratio (7,500/31,364 = 23.9%) is the same as the gearing ratio of Geared plc, and so M&M would argue that his financial risk is in no way changed by this process of arbitrage.

Mr Banwo would then buy 5% of the equity of Ungeared plc for N30,000 (N600,000 at 5%). To do this, he would use the borrowed N7,500 plus N22,500 of ‘his own money’. His annual earnings from Ungeared plc would be as follows:

5% of N60,000 N3,000
less the Interest he must pay on his personal loan (5% x N7,500) N375
Net Earnings N2,625
This is exactly the same as he would earn from keeping 5% of the equity of Geared plc (5% x N52,500) - N2,625, but he can earn this from a smaller net investment of N22,500 rather than N23,864, leaving him with surplus capital (capital gain) of N1,364.

Alternatively, if he spends the entire N31,364 in purchasing shares of Ungareed plc, his earnings would be a dividend of N31,364/N600,000) x N60,000 = N3,136, less interest on loan repayment of N375, leaving him with N2,761. This is N136 more than he currently earns from his investment in Geared plc.

Modigliani and Miller (1958) argue that rational investors will continue to substitute personal gearing for corporate gearing and buy shares in Ungareed plc until the price of those shares rises and the price of Geared plc shares falls and the market values of each firm are the same. At this point,

(a) the cost of equity in the company with the higher gearing (Geared plc) will be higher than the cost of equity in the other company;
(b) because both the market value and the annual earnings of each company are the same, it follows that the WACC must be the same, regardless of gearing.

Unrealistic Nature of M&M'S (1958) thesis:

Modigliani & Millers can be criticized along the following lines:

• **Personal Gearing** does not carry the same risk as corporate gearing. The limited liability which companies enjoy means that the investor is safer if his company borrows on his behalf than he is if he borrows on his own account.

• **Personal borrowing** is not at the same rate of interest as corporate borrowing. In fixing interest rates, bankers or lenders have regard to the credit worthiness of the customer and the absolute size of the loan and the purpose for which the loan is being sought. Modern banking prudence prohibits lending for speculative purposes like buying and selling of stocks and shares.

• **Transaction costs**: There are considerable costs involved in buying and selling investments and in the monitoring of their performance.

• **Institutional factors**: There are institutional factors against the arbitrage process. Many institutional investors would be prohibited from borrowing to finance investment purchases. Similarly, small investors may find their banks or lenders unwilling to lend to them for this purpose.

• **Taxation** exists and debt interest is a tax deductive expense, whereas equity dividends are not. All of the foregoing implies that even where one accepts the logic of M & M theory, one would have to anticipate that there would be distortions arising from its translation to a real world situation.

M & M after much criticism revised their 1958 theory to allow for corporate tax relief on debt interest.
When this is brought into account the theory identifies two advantages of borrowing and one disadvantage, and the balance shifts in favour of borrowing. A consequence to note is that there is no advantage to borrowing unless the company pays tax. If, for example, taxable profits are absorbed by high tax depreciation (capital allowances) the borrowing may not result in any further reduction in tax.

Review Question:
Nzozo plc and BABEF plc are two companies which operate in the same industry and are considered to have identical risk and operating characteristics. Both companies pursue a policy of not retaining earnings. The only differences between the two companies are in respect of size and capital structure.

The relevant data for the two companies are given below:

<table>
<thead>
<tr>
<th></th>
<th>Nzozo plc</th>
<th>Ahmed plc</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current market value of capital</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Number of £1.00 ordinary shares</td>
<td>90,000</td>
<td>150,000</td>
</tr>
<tr>
<td>Market price per share</td>
<td>N1.20</td>
<td>N1.00</td>
</tr>
<tr>
<td>Market value of Equity</td>
<td>108,000</td>
<td>150,000</td>
</tr>
<tr>
<td>6% Irredeemable Debenture</td>
<td>60,000</td>
<td>-</td>
</tr>
<tr>
<td>Earnings before Interest</td>
<td>20,000</td>
<td>20,000</td>
</tr>
</tbody>
</table>

Assuming, however, that the company does pay tax then, under the revised theory, the cost of debt should be evaluated after tax, and is much cheaper than in the original theory. The effect is that WACC decreases with increasing gearing. This implies that companies should borrow in order to take advantage of the tax relief on interest. However, this is unrealistic because the theory ignores bankruptcy risk, which begins to increase at higher levels of gearing. The theory also ignores investors' personal taxes.

When this is brought into account the theory identifies two advantages of borrowing and one disadvantage, and the balance shifts in favour of borrowing. A consequence to note is that there is no advantage to borrowing unless the company pays tax. If, for example, taxable profits are absorbed by high tax depreciation (capital allowances) the borrowing may not result in any further reduction in tax.

Review Question:
Nzozo plc and BABEF plc are two companies which operate in the same industry and are considered to have identical risk and operating characteristics. Both companies pursue a policy of not retaining earnings. The only differences between the two companies are in respect of size and capital structure.

The relevant data for the two companies are given below:

<table>
<thead>
<tr>
<th></th>
<th>Nzozo plc</th>
<th>Ahmed plc</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current market value of capital</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Number of £1.00 ordinary shares</td>
<td>90,000</td>
<td>150,000</td>
</tr>
<tr>
<td>Market price per share</td>
<td>N1.20</td>
<td>N1.00</td>
</tr>
<tr>
<td>Market value of Equity</td>
<td>108,000</td>
<td>150,000</td>
</tr>
<tr>
<td>6% Irredeemable Debenture</td>
<td>60,000</td>
<td>-</td>
</tr>
<tr>
<td>Earnings before Interest</td>
<td>20,000</td>
<td>20,000</td>
</tr>
</tbody>
</table>

(It is managerial policy to distribute all income after interest on loan as dividends).
One of your clients Mr Kambona holds 3,600 ordinary shares of Nzozo plc and seeks your investment advice. Your client is able to borrow and lend at the same rate of interest as the current pre-tax cost of debt of Nzozo plc.

Required:
(i) Ignoring taxation and transaction costs, specify the beneficial arbitrage opportunities open to your client which will not change either the periodic income from investment activities or its risk.
(ii) Outline the main assumptions inherent in the analysis carried out in part (i) above.
(iii) Briefly, discuss the extent to which the assumptions are to be considered realistic and indicate how any lack of realism is likely to alter the conclusions reached.

References:

Adapted from ICAN Students' Journal
### QUESTION ONE

Below are the balances of the Consolidated Fund for the year ended December 31, 2014:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Paid by Individuals</td>
<td>57,456,330</td>
</tr>
<tr>
<td>Tax Paid by Other Businesses</td>
<td>61,765,300</td>
</tr>
<tr>
<td>Miscellaneous Taxes for individuals and Other Businesses</td>
<td>5,000,600</td>
</tr>
<tr>
<td>General Taxes on Goods and Services</td>
<td>7,813,400</td>
</tr>
<tr>
<td>Excises</td>
<td>4,467,800</td>
</tr>
<tr>
<td>Customs and Other Import Duties</td>
<td>756,420</td>
</tr>
<tr>
<td>Taxes on Exports</td>
<td>9,121,950</td>
</tr>
<tr>
<td>Levies</td>
<td>224,567</td>
</tr>
<tr>
<td>Programme &amp; Project Grants</td>
<td>338,720</td>
</tr>
<tr>
<td>Property income</td>
<td>171,202</td>
</tr>
<tr>
<td>Revenue from Sale of Goods and Services</td>
<td>43,330</td>
</tr>
<tr>
<td>Fines, Penalties and Forfeiture</td>
<td>41,500</td>
</tr>
<tr>
<td>Miscellaneous Non-Tax Revenue</td>
<td>5,550</td>
</tr>
<tr>
<td>Bilateral Loans Received</td>
<td>360,000</td>
</tr>
<tr>
<td>Multilateral Loans Received</td>
<td>430,250</td>
</tr>
<tr>
<td>Loans from External Commercial Institutions</td>
<td>789,520</td>
</tr>
<tr>
<td>Loan from Domestic Commercial Institutions</td>
<td>44,000</td>
</tr>
<tr>
<td>Proceeds from sale of shares in private companies</td>
<td>9,260,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bilateral Loan repayments</td>
<td>133,000</td>
</tr>
<tr>
<td>Multilateral Loan repayments</td>
<td>111,150</td>
</tr>
<tr>
<td>External Commercial Institutional loan repayments</td>
<td>167,520</td>
</tr>
<tr>
<td>Domestic Commercial Institutional loan repayments</td>
<td>117,800</td>
</tr>
<tr>
<td>Salaries &amp; Wages- Non Established Posts</td>
<td>2,878,500</td>
</tr>
<tr>
<td>Salary related allowances</td>
<td>718,820</td>
</tr>
<tr>
<td>Non Salary related allowances</td>
<td>133,760</td>
</tr>
<tr>
<td>Gratuities</td>
<td>228,540</td>
</tr>
<tr>
<td>End of Service Benefit (ESB)</td>
<td>144,370</td>
</tr>
<tr>
<td>Employer's Pension Contributions</td>
<td>100,100</td>
</tr>
<tr>
<td>Materials and Office Consumables</td>
<td>467,650</td>
</tr>
<tr>
<td>Utilities</td>
<td>4,169,340</td>
</tr>
<tr>
<td>General Cleaning</td>
<td>472,040</td>
</tr>
<tr>
<td>Rentals</td>
<td>183,970</td>
</tr>
<tr>
<td>Travel and Transport</td>
<td>150,766</td>
</tr>
<tr>
<td>Repairs and Maintenance</td>
<td>1,937,910</td>
</tr>
<tr>
<td>Training, Seminar and Conferences</td>
<td>150,817</td>
</tr>
<tr>
<td>Consultancy Expenses</td>
<td>4,425,869</td>
</tr>
<tr>
<td>Special Services</td>
<td>4,001,540</td>
</tr>
<tr>
<td>Special Services</td>
<td>292,280</td>
</tr>
</tbody>
</table>
Required:

a) Prepare a Statement of Revenue and Expenditure of the Consolidated Fund for the year ended December 31, 2014.  
   \((5\text{ marks})\)

   \((6\text{ marks})\)

c) Prepare the relevant Notes and Schedules to the financial statements  \((9\text{ marks})\)

QUESTION TWO

The Government Finance Statistics (GFS 2001) was adopted by Ghana and used to develop the harmonised Chart of Accounts for MDAs and MMDAs.

a) What is a Chart of Accounts (CoA) in Public Sector Accounting? Explain the uses of \textbf{FOUR (4)} Segments of the harmonized CoA public sector institutions adopted by the Government of Ghana.  
   \((9\text{ marks})\)

b) Public procurement is one of the high risk areas of public financial management in Ghana and the Public Procurement Act, 2003 (Act 663) was passed to regulate public procurement processes.

Required:

Explain the primary objective of the Public Procurement Board (PPB) and state \textbf{FIVE (5)} main functions of the PPB.  
   \((7\text{ marks})\)

c) Explain, with examples the differences between Specific and General Warrants in a Government contract acquired through Public Private Partnerships (PPPs) \((4\text{ marks})\)

   \((Total: 20\text{ marks})\)
QUESTION THREE
In the 1992 Constitution and the financial laws of Ghana, certain key public institutions and individual are mandated to perform various functions and duties to ensure effective public financial management.

Explain FOUR (4) duties each of the following public officers and institutions towards effective public financial Management:

a) The Controller and Accountant General (6 marks)
b) The Auditor General (6 marks)
c) Parliament (6 marks)

(2 marks shall be awarded for content and presentation) (Total: 20 marks)

QUESTION FOUR
Fiscal Decentralisation is one of the key public financial management reform initiatives embarked upon by Ghana over the past decades to facilitate national development in a bottom up manner.

a) Explain the concept of Fiscal Decentralization. (4 marks)
b) Enumerate FOUR (4) factors that underpin successful Fiscal Decentralization in Ghana as a public sector financial management and public administration tool. (8 marks)

c) Ghana has recently adopted the International Public Sector Accounting Standards (IPSAS). Explain FOUR (4) benefits of adopting Accrual Basis IPSAS for public sector accounting and reporting. (8 marks) (Total: 20 marks)

QUESTION FIVE
The Ghana Integrated Financial Management Information System (GIFMIS) has been touted as a flagship system for improved public financial management (PFM) in Ghana.

a) State FIVE (5) key PFM problems the GIFMIS seeks to address. (5 marks)
b) Explain the functions of the following GIFMIS modules

i. Procure-to-Pay (P2P). (4 marks)
ii. Oracle Hyperion. (4 marks)
iii. Human Resource Management Information System (HRMIS). (4 marks)
iv. IPPD. (3 marks) (Total: 20 marks)
SUGGESTED SOLUTIONS
===================================================================== 
Mark Allocation for Question One - (0.2 marks per tick)

a) Statement of Revenue and Expenditure  =  10 ticks x 0.2  =  2 mks
b) Cash Flow  =  14 ticks x 0.2  =  2.80 mks
c) Notes  =  46 ticks x 0.2  =  9.20 mks

Total marks for ticks (70 x 0.2) = 14 Marks

Remaining 6 marks to be allocated for questions 1.a and 1.b at 3 marks each.

QUESTION ONE

(a)

STATEMENT OF REVENUE AND EXPENDITURE FOR THE YEAR ENDED DECEMBER 31, 2014

<table>
<thead>
<tr>
<th>DETAILS</th>
<th>AMOUNT (GHC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIRECT TAX</td>
<td>124,222,230</td>
</tr>
<tr>
<td>INDIRECT TAX</td>
<td>22,384,137</td>
</tr>
<tr>
<td>GRANTS</td>
<td>338,720</td>
</tr>
<tr>
<td>NON-TAX REVENUE</td>
<td>261,582</td>
</tr>
<tr>
<td>TOTAL REVENUE</td>
<td>147,206,669</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXPENDITURE</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>COMPENSATION OF EMPLOYEES</td>
<td>4,671,740</td>
</tr>
<tr>
<td>GOODS AND SERVICES</td>
<td>19,391,617</td>
</tr>
<tr>
<td>INTEREST</td>
<td>1,875,781</td>
</tr>
<tr>
<td>GOVERNMENT SUBSIDIES</td>
<td>2,360,660</td>
</tr>
<tr>
<td>SOCIAL BENEFITS</td>
<td>1,370,600</td>
</tr>
<tr>
<td>CONSUMPTION OF FIXED ASSETS</td>
<td>5,600,046</td>
</tr>
<tr>
<td>TOTAL EXPENDITURE</td>
<td>35,270,444</td>
</tr>
</tbody>
</table>

| SURPLUS                       | 111,936,225    |

STATEMENT OF CASHFLOW FOR THE YEAR ENDED DECEMBER 31, 2014

<table>
<thead>
<tr>
<th>DETAILS</th>
<th>AMOUNT (GHC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASH FLOW FROM OPERATING ACTIVITIES</td>
<td></td>
</tr>
<tr>
<td>CASH RECEIPTS FROM OPERATING ACTIVITIES</td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td>3</td>
</tr>
<tr>
<td>Grants</td>
<td>4</td>
</tr>
<tr>
<td>Non-Tax Revenue</td>
<td>5</td>
</tr>
<tr>
<td>Total Receipt</td>
<td>147,206,669</td>
</tr>
</tbody>
</table>

| CASH PAYMENT FOR OPERATING ACTIVITIES       |              |
| Compensation of Employees                   | 7            |
| Goods and Services                          | 8            |
| Interest                                    | 11           |
| Social Benefit                              | 13           |
| Government Subsidies                        | 12           |
| Total Payment                               | (29,670,398) |

Net Cashflow from Operating Activities 117,536,271

The Student's Journal (January/March 2016)  Page 36
### CASHFLOW FROM INVESTING IN NONFINANCIAL ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of non-financial assets</td>
<td>9 (157,035,710)</td>
</tr>
<tr>
<td>Disposal of Non-Current Asset</td>
<td></td>
</tr>
<tr>
<td><strong>Net cashflow from investment in Non-Current Assets</strong></td>
<td><strong>(157,035,710)</strong></td>
</tr>
</tbody>
</table>

### CASHFLOW FROM INVESTING IN FINANCIAL ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares and other equity</td>
<td>15 (3,450,000)</td>
</tr>
<tr>
<td>Advances</td>
<td></td>
</tr>
<tr>
<td><strong>Total Acquisition Financial Assets</strong></td>
<td><strong>(3,450,000)</strong></td>
</tr>
<tr>
<td>Disposal/Recovery of Financial Asset</td>
<td></td>
</tr>
<tr>
<td>Proceeds from sale of shares</td>
<td>16 9,260,000</td>
</tr>
<tr>
<td><strong>Total Disposal/Recovery of Financial assets</strong></td>
<td><strong>9,260,000</strong></td>
</tr>
<tr>
<td><strong>Net cashflow from investment in financial assets</strong></td>
<td><strong>5,810,000</strong></td>
</tr>
</tbody>
</table>

### CASHFLOW FROM FINANCING ACTIVITY

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflow</td>
<td>6 (529,470)</td>
</tr>
<tr>
<td>Outflow</td>
<td>14 1,094,300</td>
</tr>
<tr>
<td><strong>Net Cashflow from Financing Activities</strong></td>
<td><strong>(32,595,139)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET CHANGE IN STOCK OF CASH</strong></td>
<td><strong>37,089,480</strong></td>
</tr>
</tbody>
</table>

### CASH AND CASH EQUIVALENT AT BEGINNING

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH AND CASH EQUIVALENT AT CLOSE</strong></td>
<td><strong>4,494,341</strong></td>
</tr>
</tbody>
</table>

### NOTES TO THE ACCOUNTS

**1 DIRECT TAX**
- Tax Paid by Individuals: 57,456,330
- Tax Paid by Corporations: 61,765,300
- Miscellaneous Taxes: 5,000,600
- **Total**: 124,222,230

**2 INDIRECT TAX**
- General Taxes on Goods and Services: 7,813,400
- Excises: 4,467,800
- Customs and Other Import Duties: 756,420
- Taxes on Exports: 9,121,950
- Levies: 224,567
- **Total**: 22,384,137

**3 Taxes**
- Directs Taxes: 124,222,230
- Indirect Taxes: 22,384,137
- **Total**: 146,606,367

**4 GRANT**
- Programme & Project Grants: 338,720
- **Total**: 338,720

**5 NON-TAX REVENUE**
- Property income: 171,202
- Revenue from Sales of goods and services: 43,330
- Fines, penalties, and forfeiture: 41,500
- Miscellaneous Non-Tax Revenue: 5,550
- **Total**: 261,582
6 LOANS RECEIVED
Bilateral Loans received 360,000
Multilateral Loans received 430,250
Loans from External Commercial Institution 789,520
Loan from Domestic Commercial Institution 44,000
\[ \text{Total Loans Received} = 1,623,770 \]

7 COMPENSATION OF EMPLOYEES
Salaries & Wages -Established Position 2,878,500
Salaries & Wages- Non Established Post 718,820
Salary related allowances 133,760
Non Salary related allowances 228,540
Gratuities 144,370
End of Service Benefit (ESB) 100,100
Employer's Pension Contributions 467,650
\[ \text{Total Compensation} = 4,671,740 \]

8 GOODS AND SERVICES
Materials and Office Consumables 4,169,340
Utilities 472,040
General Cleaning 183,970
Rentals 150,766
Travel and Transport 1,937,910
Repairs and Maintenance 150,817
Training, Seminar and Confer 4,425,869
Consultancy Expenses 4,001,540
Special Services 292,280
Other Charges and Fees 3,570,460
Emergency Services 36,625
\[ \text{Total Goods and Services} = 19,391,617 \]

9 NON-FINANCIAL ASSETS
Infrastructure, Plant & Equipment 136,239,510
Work In Progress - Constructions and Buildings 20,796,200
\[ \text{Total Non-Financial Assets} = 157,035,710 \]

10 Consumption of fixed assets 5,600,046

11 INTEREST PAYMENTS
Interest paid on domestic loans 888,555
Interest paid on external loans 987,226
\[ \text{Total Interest Payments} = 1,875,781 \]

12 GOVERNMENT SUBSIDIES
Utility 1,438,200
Petroleum Products 922,460
\[ \text{Total Government Subsidies} = 2,360,660 \]
13 SOCIAL BENEFITS
Employer social benefits in Cash 1,370,600
Total Expenditure 1,370,600

14 LOAN REPAYMENTS
Bilateral Loans 133,000
Multilateral Loans 111,150
External Commercial Institution 167,520
Domestic Commercial Institution 117,800
Total 529,470

15 Financial Assets (Equity Investment)
Investment in Companies & Public Corporations 3,450,000
Total 3,450,000

16 Proceeds from Sale of Shares 9,260,000

QUESTION TWO
The Government Finance Statistics (GFS 2001) was adopted by Ghana and used to develop the harmonised Chart of Accounts for MDAs and MMDAs.

a) What is a Chart of Accounts (CoA). Identify and explain the uses of four (4) Segments of the harmonized CoA for MDAs and MMDAs.
Definition of CoA (1 mark)
CoA is a structured set of codes that provides a framework for Recording, Classifying, and Organising Budget Data and Accounting Transactions into Reports and Statements. It provides various perspectives of financial transactions and facilitates budgetary controls.

Segments of the harmonised CoA (2 marks per point, max 8 marks)

1. **Institution Segment** - This segment is used for coding an Institutional Unit which stands as an economic entity. An institutional unit as defined in the GFS 2001 Manual “is an economic entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and in transactions with other entities. These entities should be treated as separate government units if they maintain full sets of accounts, own goods or assets in their own right, engage in non-market activities for which they are held accountable at law, and are able to incur liabilities and enter into contracts.”

2. **Funding Segment** - The Funding segment provides a means to track the source of funding for expenditures within a consolidated reporting scheme. Expenditures are assigned against the appropriate funding code, independent from the organizational or program structure.

3. **Functional of Government (COFOG) Segment** – This segment provide coding for functional classification of expense to provide a strategic view of the allocation of budget resources between different sectors of the economy. This is based on the United Nations Classification of Functions of Government (COFOG). It is a detailed classification of the functions, or socioeconomic objectives (eg, health, education, defense, etc), that Government units aim to achieve through various programmes.
4. **Organisational Segment** - The Organisational segment provides the basis for establishing the responsibilities for the day-to-day administration of government business. The structure of the organizational hierarchy is reflected in the series of codes for ministries, departments and agencies (Cost Centres/ Spending Units) reporting under the Sector Ministries.

5. **Program and Sub-programme Segments** – These segments provide the basis for recording transactions associated with a specific program or sub-program that is operating under an organizational unit.

6. **Activity Segment** – This segment provides classification of various activities related to specific programmes, sub-programmes or outputs.

7. **Location Segment** – Provides geographical location of an institution, organisation, programme, etc based on established political and administrative districts of Ghana.

8. **The Natural Accounts segment** – This is an Economic Classification which provides the basis for recording specific activity by the kind of transactions by which the Government performs its functions. This segment provides classification and coding for revenue, expenditure, liabilities, etc.

Uses of harmonized chart of accounts may also he explained as follows:

i. Harmonization of accounts of MDAs and MMDAs;
ii. Uniform classification of accounts in public financial management;
iii. Control of accounts in public financial management;
iv. Tracking of revenue and expenditure in public financial management;
v. Efficiency and effectiveness in budgetary resource allocation; and
vi. Design of audit trail

b) Public procurement is one of the high risk areas of public financial management in Ghana and the Public Procurement Act, 2003 (Act 663) was passed to regulate the procurement process.

**Explain the primary objective of the Public Procurement Board (PPB) and state five main functions of the PPB**

**Objective of PPB (2 marks)**
The primary objective of the PPB is to harmonise the processes of public procurement in the public service to secure a judicious, economic and efficient use of state resources in public procurement and ensure that public procurement is carried out in a fair, transparent and non-discriminatory manner.

**Functions of the Board (1 mark per point, max 5 marks)**

- Make proposals for the formulation of policies on procurement
- Ensure policy implementation and human resource development for public procurement
- Develop draft rules, instructions, other regulatory documentations on public procurement and formats for public procurement documentation
- Monitor and supervise public procurement and ensure compliance with statutory requirements
- Have the right to obtain information concerning public procurement from contracting authorities
- Establish and implement an information system relating to public procurement
• Publish a monthly Public Procurement Bulletin which shall contain information related to public procurement, including proposed procurement notices, notices of invitation to tender and contract award information
• Assess the operations of the public procurement processes and submit proposals for improvement of the processes
• Present annual reports to the Minister of Finance on the public procurement processes;
• Facilitate the training of public officials involved in public procurement at various levels
• Develop, promote and support training and professional development of persons engaged in public procurement, and ensure adherence by the trained persons to ethical standards
• Advise Government on issues relating to public procurement
• Plan and co-ordinate technical assistance in the field of public procurement
• Maintain a register of procurement entities and members of and secretaries to tender committees of public procurement entities
• Maintain a data base of suppliers, contractors and consultants and a record of prices to assist in the work of procurement entities
• Investigate and debar from procurement practice, suppliers, contractors and consultants who have seriously neglected their obligations under a public procurement contract, have provided false information about their qualifications, or offered inducements of the kind to public officers.
• Maintain a list of firms that have been debarred from participating in public procurement and communicate the list to procurement entities on a regular basis
• Hold an annual forum for consultations on public procurement and other related issues

C) Explain, with examples, the differences between Specific and General Warrants. (4 marks)

Warrants are issued by the Ministry of Finance to MDAs and MMDAs which represent the authority to commit government and spend from the national budget. Warrants are also issued at the MMDA level to support expenditure related to MMDA's budget approved by the Local Assembly.

Specific Warrant (SW) - As the name implies, Specific Warrants are issued for a specific item or project and cannot be used for a different expenditure item without prior approval by the Minister of Finance. Example, specific warrant issued for the construction office building cannot be used to purchase Vehicles and vice versa without prior approval by the Minister of Finance to that effect. SWs are normally issued for capital expenditure which are non-recurrent.

General Warrant (GR) - GRs on the other hand are not tie to specific expenditure items but must be used for items provided for in the approved budget. GRs are issued to MDAs and MMDAs to meet their operational expenses. These expenses are recurrent in nature. For instance, a bulk general warrant could be issued to an MDA for Goods and Services expenditure and the MDA has the flexibility to use the warrant for operational expenses such as utilities, stationery, conferences, travel and transports, etc provided all these expenses were actually budgeted for.
QUESTION THREE

In the 1992 Constitution and the financial laws of Ghana, some public institutions are mandated to perform key roles to ensure effective public financial management. Explain the Four (4) duties of the following public officers through their respective institutions towards effective public financial Management:

a) The Controller and Accountant General's Department (CAGD)

Statutory Duties
Section 3 (Financial Administration Act, 2003) Act 654
1. Responsible to the minister of finance for the custody, safety and integrity of the consolidated fund and other public funds under his care;
2. Responsible for compilation and management of the consolidated fund and other public funds;
3. He is the chief accounting officer of the government responsible for keeping, rendering and publishing statements of public accounts as required by law;
4. He is the chief advisor to the minister of finance and the government on accountancy matters;
5. He approves departmental accounting instructions and promotes the development of efficient accounting systems within departments;
6. He is responsible for receipt, secure custody of public moneys payable into the consolidated fund.
7. He authorizes the opening of bank accounts of MDAs and MMDAs
8. In consultation with the auditor general, he specifies for departments, the accounting basis, policies and classification system to ensure proper system of accounting;

Regulatory Control Duties
The regulatory control duties of the controller and accountant general in public financial management are as follow:
- Relating each spending department's requirements to the economic resources estimated to be available and to the total claims on them;
- Keeping public expenditure within total resources for the year;
- Advising departments on economic and financial policy, via treasury circulars;
- Controlling government expenditures through co-ordination and monitoring operations pf MDAs and MMDAs;
- Considering matters covered by the reports of the public accounts committee of parliament and co-operating to improve financial control;
- Initiating programmes to improve financial management, including the provision and guidance improvements, in public sector accounting;

b) The Auditor General (1.5 marks per point, max 6)

Statutory Duties:

1. Section 11, Audit Service Act, 2000 (Act 548)

The public accounts of Ghana and of all public offices, including the courts, the central and local government administrations, of the universities and public institutions of like nature, of a public corporation or other body or organization established by an act of parliament shall be audited and reported on by the auditor general.
1. **Section 13- Examination Of Accounts**

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 taken with due regard to economy, efficiency and effectiveness in relation to the resources utilized and results achieved.

**Other Duties**

Section 12 – audit of foreign exchange transactions
Section 14 – audit of statutory corporations;
Section 15 – examination of annual statement of public accounts prepared by controller and accountant general;
Section 16 – submission of special audit report to parliament;
Section 17 – disallowance of surcharge.

### a. Parliament (1.5 marks per point, max 6)

- Scrutinisation and approval of national budget
- Scrutinisation, approval or disapproval of public expenditure, grants, loans, taxes, etc to ensure that government operates with the remits of the approved national budget or Appropriation Act.
- Scrutinisation of Auditor General's reports on public accounts and interrogating public officials on the audit findings and recommendations
- Holding public officers accountable for financial losses to the state
- Promulgation of laws and legislative instruments to enforce financial accountability and transparency
- During budget execution, Parliament is mandated to receive in-year implementation reports through select committees.
- Parliament may also undertake direct monitoring of projects approved in the budget through visits to project sites to monitor project implementation or service delivery
- Parliament is part of the wider checks and balances in the PFM system, and help to create a demand for accountability:
- Parliament is mandated to approve International Business and other Financial Transactions. Article 181 of the Constitution provides that Parliament may, by a resolution, authorise the Government to enter into an agreement for the granting of a loan out of any public fund or public account.

*NB: (award max of 2 marks for general and logical presentation)*

(20 marks)
QUESTION FOUR
Fiscal Decentralization is one of the key public financial management reform initiatives embarked upon by Ghana over the past decades to facilitate national development at the local level.

a) Explain the concept of Fiscal Decentralization (max of 4 marks)
The Government of Ghana (GoG) in 1988 embarked upon the implementation of a comprehensive decentralization policy and local government reform program aimed at establishing efficient decentralized government machinery as a means to provide strong support for participatory development. This was further given a boost by Chapter 20 of the 1992 Constitution. Article 240 (1) of the Constitution provides that, 'Ghana shall have a system of Local Government and administration, which shall as far as practicable, be decentralized'. The Constitution further provides that:

i. Parliament shall formulate laws to enhance the capacity of Local Government Authorities to plan, initiate, co-ordinate, manage and execute policies in respect of matters affecting the local people within their areas.
ii. There shall be established for each Local Government unit a sound financial base with adequate and reliable sources of revenue.
iii. To ensure accountability of Local Government authorities, people in particular local government areas shall, as far as practicable be afforded the opportunity to participate effectively in governance.

In order to operationalise the above, the Local Government Act, 1993 (Act 462) was passed to outline in practical terms the political, administrative and fiscal mandates of the Metropolitan, Municipal and District Assemblies (MMDAs) in their areas of jurisdiction.

Act 462 seeks to establish decentralized administration through the transfer of power, authority, functions, competence and means from the Central Government Ministries, Departments and Agencies (MDAs) to local government (LG) units, specifically i.e the Metropolitan, Municipal and District Assemblies (MMDAs) for improved service delivery to people.

In Ghana, Fiscal Decentralization seeks to ensure the transfer of adequate financial resources from central Government to Local Governments with sufficient autonomy to allocate these resources in the provision of socio-economic services.

b) Enumerate four (4) factors that underpin successful Fiscal Decentralisation (2 marks per point, max 8)

Fiscal decentralization is not only a question of transferring resources to the different levels of local government. It is also about the extent to which local governments are empowered, about how much authority and control they exercise over the use and management of devolved financial resources, measured in terms of their control over (i) the provision of local services for which they are mandated to perform; (ii) the level of local taxes and revenues (rates, fees, fines and other collections); and (iii) the Government to finance other projects.

Evidence has shown that effective Fiscal decentralization by itself may not be enough to practically empower MMDAs and local communities to achieve the needed development. While local power to mobilize and spend resources is important, successful fiscal decentralization requires the full complimentary support of other aspects of decentralization- political and administrative decentralization to make it whole.
First, unless local governments are politically empowered by having democratically elected and practical representation in the MMDAs, local councils, local communities and citizens will not be able to hold their local governments accountable.

Second, unless MMDAs in Ghana have administrative control over the services they are supposed to deliver (for instance, by having effective control over the local government staff that deliver local services),

In addition, the creation of an enabling environment for MMDAs (of which fiscal decentralization is a core element) will often need to be complemented by support for capacity development, for the strengthening of inclusive systems for local public expenditure management, and for robust accountability mechanisms.

Finally, successful fiscal decentralization also requires a meaningful dialogue between local, regional and central governments, an appropriate set of legal and institutional arrangements for local government management, and a system of incentives.

b) 4 Factors That Underpin Successful Fiscal Decentralization (Summary)

i. Management Of Devolved Financial Resources
   - Provision of local services;
   - Level of local taxation and revenues (rates, fees, fines);
   - Government's ability to finance other projects, especially capital projects;
   - Resource mobilization.

ii. Public Accountability And Public Budgeting
   - Resource allocation;
   - Public debates or stakeholder consultation;
   - Administrative /organisational system
   - Answerability to communities.

iii. Financial And Budgetary Control
   - Compliance to financial rules, laws and objectives of organization;
   - Effective and efficient expenditure management;
   - Judicious use of MMDA funds and other resources;
   - Safeguarding of assets of assembly;

iv. Political Empowerment
   - Administrative control;
   - Capacity building;
   - Economic development (local and national);
   - Full complimentary and timely financial support by central government, donor;agencies, NGO's, etc.

c) Ghana has recently adopted International Public Sector Accounting Standards (IPSAS).

i. Explain Four (4) benefits of Accrual Basis IPSAS (2 marks per point, max 8)
   - Better national/international comparability and consistency of financial information
   - Transparency in government accounting and financial reporting which influences government's cost of refinancing
   - Enhancement of accountability and oversight control
   - Focus on public-sector-specific issues in financial reporting
   - Better recognition of risks, opportunities, cost awareness and efficiency
   - Improved government finance statistical information
   - Better decision-making and improvement of assets and liabilities management
The Ghana Integrated Financial Management Information System (GIFMIS) has been touted as a flagship system for public financial management (PFM) in Ghana.

**a)** **State five (5) key PFM problems GIFMIS seeks to address (5 marks)**

- Lack of integration between budget preparation and execution systems
- Inadequate budgetary controls
- Lack of interface between various PFM Systems across MDAs and MMDAs
- Undue delays in processing transactions due to cumbersome manual processes
- Poor record keeping on public financial transactions
- Lack of reliable data for effective fiscal planning
- Weak accounting and fiscal reporting system
- Lack of transparency in budget execution
- Delays in financial reporting

**b)** **Explain the functions of the following GIFMIS modules**

**i. Procure-to-Pay (P2P) (4 marks)**

P2P is an acronym of Oracle E-business suite application used for processing expenditure. It consists of Purchasing module, Accounts Payables module and Cash Management module.

- **The Purchasing module** is used for the preparation of Purchase Requisition, Purchase Order and Stores Receipts Advice.
- **The Accounts Payable module** is used for preparing Payment Vouchers, accounting for expenditure and tracking liabilities.
- **Cash Management module** is used for making Payments, Bank Reconciliation, cash forecasting

**ii. Oracle Hyperion (4 marks)**

Oracle Hyperion is a GIFMIS application being used by the Government for preparation of the national budget. The key components and their functions are explained below:

- **Hyperion Planning Plus** – is used for the Strategic Planning aspect of the Budget preparation process as well as analysis of the budget, e.g Sensitivity and what if analysis.
- **Hyperion Public Sector Planning and Budgeting** – is used for the Costing aspect of the budget process.
- **Hyperion Project Financial Planning** – is used for Project management including contract management

**i. Human Resource Management Information System (HRMIS) (4 marks)**

HRMIS is under the GIFMIS is being used by the government for human resource management. The aim is to automate public sector HR Management processes to improve efficiency and provide timely and accurate information for human resource management decisions in the public sector. The key components include:

- **Employee Profile Management** - for maintenance of the main bio data of employees from appointment to attrition in the areas of Employee Appointment, Employee record maintenance and Employee promotion.
• **Establishment Management** - for the management of Organisations, Locations, organizational hierarchies, Grades, Jobs, Positions and position hierarchies. This facilitates position control where no public institution (MDA/MMDA) on the HRMIS will exceed the established/approved staffing levels without approval from their appointing authorities.
• **Employee Cost Management** - for managing compensation of employees at all MDAs/MMDAs to ensure budgetary control over payroll cost.

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