COST AND MANAGEMENT ACCOUNTING

QUESTION 1

MAX Construction Limited was contracted to construct a six-unit classroom block at Kaase on the 1st of January 2012. The cost of the project was GH¢250,000 with a provision of 10% for contingency. The contractor was also entitled to Advance Mobilization of 30% of the Contract Sum upon submission of Performance Bond.

The following transactions took place during the year 2012.

(i) Material sent to site:

		GH¢
	Sand	10,000
	Stones	20,000
	Blocks	22,000
	Cement	30,000
	Others	12,000
(ii)	Direct Labour Cost	25,000
	Direct Expenses	10,000

(iii) Equipment sent to site was valued at GH¢180,000.

(iv) The consultant for the project issued a certificate valued at GH¢200,000.

Information as at 31/12/2012:

		GH¢
(i)	Materials on site	20,000
(ii)	Work completed but not certified	15,000

Overhead is charged at 25% of Prime Cost.

The Site Engineer had also estimated the following costs to get the project completed.

Direct materials GH¢12,000, Direct Labour GH¢10,000 and Overhead of 25% on Prime Cost.

Additional Information:

(i) Depreciation is at 10% of cost.

(ii) The company recognizes stage of completion with reference to the proportion costs incurred to date bears with total estimated costs to complete the project.

(iii) Retention is 10% of Value of certificate.

Required:

(i) Prepare a statement to show the Profit to be transferred to Income Statements for the year ended 2012.

(8 marks)

(ii) Calculate the value of work-in-progress to be included in the Statement of Financial Position of the Company as at 31/12/12.

(4 marks)

(iii) List and explain four (4) conditions that should prevail to make the operation of the Just-in-Time Inventory Management system successful.

(8 marks)

(Total: 20 marks)

QUESTION 2

JACK manufactures a special product, with a standard cost of GH¢80 made up as follows:

	GH¢
Direct materials 15sq meters @ GH¢3 per sq. meter	45.00
Direct Labour (5 hrs @ GH¢4/hr)	20.00
Variable Overheads (5 hrs @ GH¢2/hr)	10.00
Fixed Overheads (5hrs @ GH¢1/hr)	5.00
	80.00

- The standard selling price of the product is GH¢100
- The monthly budget projects production and sales of 1,000 units.

Actual figures for the month of July are as follows:

- Sales 1,200 units at GH¢102 each
- Production 1,400 units
- Direct Material 22,000 sq. meters @ GH¢4 per sq. meter
- Direct Wages 6,800 hours at GH¢5 per hour
- Variable Overheads GH¢11,000
- Fixed Overheads GH¢6,000

Required:

(a) Calculate the following variances.

(i) Material Price Variance

(ii) Material Usage Variance

(iii) Labour Rate Variance

(iv) Labour Efficiency Variance

(v) Total Variable Overhead Variance

(vi) Fixed Overhead Efficiency Variance

(vii) Fixed Overhead Expenditure Variance

(viii) Fixed Overhead Capacity Variance

(ix) Sales Margin Price Variance

(15 marks)

(b) Based on the variances calculated in (a) above, determine the actual profit for the period.

(5 marks)

(Total: 20 marks)

QUESTION 3

(a) PTM operates two segments. The following is a summary of performance and financial position as at 31/12/11.

	A GH¢	**B** GH¢
Sales	240,000	420,000
Cost of Sales	120,000	220,000
Other Expenses	60,000	1,010,000
Fixed Assets	1,010,00	2,300,000
Current Assets	300,000	800,000
Current Liabilities	250,000	550,000

The company intends to improve its capacity by the disposal of obsolete assets and replacing them with modern ones.

Segment A:
An asset with written down value of GH¢ 30,000 will be replaced with one costing GH¢75,000 to increase profit by GH¢20,000. The old asset contributed 8% of the 2011 profit.

Segment B:
An asset with written down value of GH¢120,000 which contributed 10% to 2011 profit is to be replaced with one costing GH¢180,000 that will increase profit by GH¢45,000.

Required:

(a) i. If Return On Capital Employed (ROCE) is used to evaluate the performance of managers, will the managers approve of the proposal?

(8 marks)

ii. What will be the position if Residual Income is used?
Note: Cost of capital is 8%.

(6 marks)

(b) Discuss three (3) factors in Budgetary Control system that will de-motivate staff?

(6 marks)

(Total: 20 marks)

QUESTION 4

BBQ Co. Ltd. is a manufacturer of glass bottles which has been affected by competition from plastic bottles and currently operating below capacity. The data below relate to BBQ Co. Ltd. which makes and sells one product (glass bottles):

	January (Units)	**February (Units)**	**March (Units)**
Sales	5,000	7,000	4,000
Production	9,000	3,000	4,000
	GH¢	**GH¢**	**GH¢**
Selling price per Unit	100	100	100
Variable production cost per Unit	60	60	60
Fixed production overhead incurred	120,000	120,000	120,000
Fixed production overhead cost per unit, being the predetermined overhead absorption rate	15	15	15
Selling & Distribution cost (fixed)	50,000	50,000	50,000

Required:

(a) Prepare comparative profit statements for each month using:

(i) Absorption costing
(ii) Marginal costing

(12 arks)

(b) Explain two justifications **each** for using both **variable** and **absorption** costing.

(8 marks)

(Total: 20 marks)

QUESTION 5

(a) Discuss four (4) principles that should guide the Accountant in the establishment of a Cost Accounting System for a medium sized Manufacturing Company.

(8 marks)

(b) Explain the following concepts as used in Inventory Management System.

(i) Economic Order Quantity. ***(2 marks)***

(ii) Maximum Stock level. ***(2 marks)***

(c) The following data was extracted from the books of Amantia Ltd. on one of the major materials used in production.

Items received during the month of February 2013.

Date	**Qty (Unit)**	**Unit Cost GH¢**
02/02/13	1,000	12
06/02/13	800	14
12/02/13	1,200	18
20/02/13	700	16

Items issued out for production during the month:

Date	**Qty (Units)**
10/02/13	650
14/02/13	1,300

Required:

Calculate the total cost of materials sent to Work-In-Progress Account using the Weighted Average Method of inventory valuation.

(8 marks)

(Total: 20 marks)

FINANCIAL MANAGEMENT

QUESTION 1

(a) (i) Briefly explain the term shareholder value maximization and provide THREE reasons why it is considered more appropriate than profit maximization.

(4 marks)

(ii) Identify four non-financial goals that can be pursued by a company.

(4 marks)

(iii) Explain briefly why Preference shares are not popular as a source of finance for Companies.

(2 marks)

(b) (i) Explain clearly the difference between an Interest Rate Swap and Currency Swap.

(4 marks)

(ii) ABC Bank Ltd. wishes to borrow on a fixed rate whereas XYZ Bank prefers a floating rate.

ABC Bank can borrow on floating rate at Bank Lending Rate (BLR) + 4.5% or fixed rate at 20% per annum.

XYZ Bank can borrow on floating rate at BLR + 3.5% or fixed rate at 15% per annum.

Required:

(ii) Demonstrate how they will use interest rate swap to their mutual benefits.

(ii) Compute the gain resulting from the swap arrangement.

(6 marks)

(Total: 20 marks)

QUESTION 2

(a) The management of "Rudi Bank", a private indigenous financial institution with speciality of granting credit facility to Oil and Gas industry players has decided to raise funds through issue of shares to meet the minimum capitalization requirement set by Bank of Ghana.

Required:

Briefly and clearly explain the various ways in which the bank can obtain a quotation for its shares on the Ghana Stock Exchange.

(6 marks)

(b) Nhyira Limited makes an annual credit sales of GH¢4,700,000. Credit period was 30 days but as a result of poor credit administration, the average collection period has been 45 days with 1% sales resulting into bad debts which are normally written off.

A factor by name Quick Collection Ltd. is being considered to take up the administration of the debts and trade credits on quarterly fees of 0.625% of credit sales. In this respect, the company would save administrative costs of GH¢100,000 annually and the payment is expected to be 30 days.

The factor would provide 80% of invoiced debts in advance at an interest rate of 3% per quarter (base rate). The company can obtain overdraft facility to finance its debtors at a rate of 2.5% over base rate.

Required:

Advise the company's management on whether or not to accept the services of a factor.

(14 marks)

(Total: 20 marks)

QUESTION 3

(a) Give THREE (3) reasons why Net Present Value of Investment Appraisal is superior to other methods of investment appraisal.

(3 marks)

(b) The demand for phone cards is about 600,000 units per annum. It was estimated that it cost GH¢3 to keep one unit of the card in stock for one year.

The Finance Manager estimated that it will cost GH¢40 each time an order is to be placed.

Required:

(i) Calculate the economic order quantity..

(ii) Calculate the total inventory cost per annum. ***(7 marks)***

(c) Ama Serwaa is considering two different saving plans. The first plan would have her deposit GH¢500 every six months, and she would receive interest at 7 percent annual rate, compounded semi-annually. Under the second plan she would deposit GH¢1,000 every year with a rate of interest of 7.5 percent, compounded annually. The initial deposit with Plan 1 would be to start six months from now and with Plan 2, one year hence.

(i) What is the future (terminal) value of the first plan at the end of 10 years?

(5 marks)

(ii) What is the future (terminal) value of the second plan at the end of 10 years?

(5 marks)

(Total: 20 marks)

QUESTION 4

(a) RR has a market value of GH¢150 million, whiles MM has market value of GH¢350 million. MM has estimated that if it combines resources with RR, incremental revenue and cost will be GH¢70 million and GH¢30 million per annum forever respectively. On the basis of the above projections, MM makes an offer for the entire value of RR. MM's cost of Capital is 20%.

Required:

(i) What is the gain from this transaction? ***(2 marks)***

(ii) If MM makes a cash offer of GH¢205 million for all the shares of RR, what is the cost of this transaction.

(2 marks)

(iii) What is the Net Present Value of this transaction to MM? ***(3 marks)***

(iv) If MM offered shares valued at GH¢320 million, what will be the cost of the share offer?

(2 marks)

(v) What is the Net Present Value of the share offer? ***(2 marks)***

(vi) Outline two (2) reasons why shareholders of MM will insist on share offer instead of cash offer.

(3 marks)

(b) PRG Ltd. expects to pay no dividend for the next two years. However, dividend for the third year would be GH¢1 per share and the dividend is expected to grow 3% in year 4 and 6% in year 5 and 10% in year 6 and thereafter forever. If the required return for the company is 20%, what is the current price for the shares?

(6 marks)

(Total: 20 marks)

QUESTION 5

Farfrae Co. Ltd., manufacturers agriculture chemicals and fertilizers. The company uses one particular machine which has an operational life of three years and which costs GH¢20,000. The machine's maintenance and operational costs increased with its age and its residual value decreased as set out below.

Year	Outlay GH¢	Operating Cost GH¢	Residual Value GH¢
0	(20,000)	-	-
1	-	(4,000)	14,000
2	-	(8,000)	10,000
3	-	(10,000)	8,000

The Company's cost of capital is 10%.

Required:

Using the <u>Lowest Common Multiple</u> (LCM) and the <u>Equivalent Annual Cost Methods</u>, calculate the most economic option for the company to replace its machine every:

(i) one year

(ii) two years

(iii) three years

(Total: 20 marks)

FINANCIAL REPORTING

QUESTION 1

(a) (i)

The IASBs' Framework for the Preparation and Presentation of Financial Statements requires financial statements to be prepared on the basis that they comply with certain accounting concepts (underlying assumptions) such as:

1. Matching/Accruals
2. Prudence
3. Comparability
4. Materiality

Required:

Briefly explain the meaning of each of the above concepts/assumptions.

(4 marks)

(ii) For most entities, applying the appropriate concepts/assumptions in Accounting for Inventories is an important element in preparing their financial statements.

Required:

Illustrate with examples how each of the concepts/assumptions in (i) above, may be applied to Accounting for Inventories.

(6 marks)

(b) Adom Ltd. produces a palm oil processing machinery at a cost of GH¢25,200. It either sells the machinery for cash of GH¢33,550 or leases it to rural communities on a three year lease.

On 1 January, 2013, Adom Ltd. entered into a three-year non-cancellable lease with Twifoman Community on the following terms:

(i) Lease rentals were GH¢11,200 payable annually in advance
(ii) Initial direct cost of GH¢16,800 was incurred in commission and legal fees and were borne by Adom Ltd. This is to be charged to the income statement on a systematic basis.
(iii) There is a guaranteed residual value of GH¢5,600.
(iv) The interest rate implicit in the lease with Twifoman Community was 18% per annum.

On 1 January, 2013, Adom Ltd. entered into arrangement with Boadi Enterprise (BE). BE had purchased a machinery from Adom Ltd. but having run into cash flow problems, BE arranged a sale or lease back of the machine to Adom Ltd.

The arrangement was that BE should sell the machine to Adom Ltd. for GH¢24,956 and immediately lease it back for 4 years at a rental of GH¢7,500 payable yearly in advance. At the time of the sale, the book value of the machine was GH¢15,000 which was arrived at after the calculation of depreciation on straight line basis. It was agreed that the machine should revert back to Adom Ltd. at the end of the 4-year period when its scrap value was estimated to be nil. The lease is non-cancellable and Adom Ltd. is reasonably confident that the lease payment will be met. The interest rate implicit in the lease with BE was 14% (ignore taxation).

Required:

(i) In respect of the lease with Twifoman Community:

- Draft the entries that would appear in the income statement of Adom Ltd. for the year ended 31 December, 2013.
- Draft the entries that will appear in the statement of financial position of Adom Ltd. as at 31 December 2013 and 2014.

(ii) In respect of the transaction with BE, draft the journal entries to record the transaction in the books of BE for the year ended 31 December, 2013.

Present value factors are:

End of year	14%	16%	18%
1	0.877	0.862	0.848
2	0.789	0.743	0.718
3	0.765	0.641	0.609
4	0.592	0.552	0.516
5	0.519	0.476	0.437

(14 marks)

(Total: 24 marks)

QUESTION 2

The summarized Statement of Financial Position of Adidome Ltd. and Akatsi Ltd. as at 31 December 2012 were as follows:

	Adidome Ltd. GH¢	**Akatsi Ltd. GH¢**
Non-current Assets:		
Property, Plant & Equipment	80,000	58,200
Investment	84,000	-
	164,000	58,200
Current Assets:		
Inventory	18,000	12,000
Trade & Other Receivables	62,700	21,100
Cash & Bank Balances	10,000	5,500
Current Account: Adidome Ltd.	-	3,200
	90,700	41,800
Total Assets	254,700	100,000
Equity & Liabilities		
Current Liabilities		
Trade & Other Payables	35,000	11,000
Current Accounts: Akatsi Ltd.	2,700	-
Total Liabilities	37,700	11,000
Equity Funds		
Stated Capital	120,000	60,000
Income Surplus	56,000	16,000
Capital Surplus	41,000	13,000
Total Equity Funds	217,000	89,000
Total Liabilities & Equity	254,700	100,000

The following information is relevant:

(1) On 1 January 2010, Adidome Ltd. acquired 48,000 of the equity shares in Akatsi Ltd. for GH¢84,000 cash when the balance on the income surplus of Akatsi Ltd. was GH¢8,000 whilst the balance on the capital surplus account was GH¢13,000.

(2) On the date of acquisition, one item of plant of Akatsi with a book value of GH¢4,000 had a fair value of GH¢6,000. The plant had a remaining economic life of four years. The fair valuation had not been reflected in the separate statement of financial position of Akatsi Ltd.

(3) During the year, Akatsi Ltd. sold goods to Adidome Ltd. at a mark-up of 25%. As at the end of the year, the inventories of Adidome Ltd. included GH¢4,000 of goods from Akatsi Ltd.

(4) A cheque for GH¢500 from Adidome Ltd. to Akatsi Ltd., sent before 31 December, 2012, was not received by the latter company until January 2013.

(5) An impairment review at 31 December 2012 revealed that the goodwill in respect of Akatsi Ltd. had fallen in value over the year by GH¢500. By 1 January 2013, this good would have already suffered impairments totaling GH¢ GH¢1,700.

(6) The stated capitals of Adidome Ltd. and Akatsi Ltd are made up of 120,000 and 60,000 issued ordinary shares respectively. The shares were issued at GH¢1.00 each.

(7) The group policy is to fair value non-controlling interest. The market price per share of Akatsi on 1 January 2010 was GH¢1.40.

Required:

Prepare the Consolidated Statement of Financial Position of the Adidome Ltd. group as at 31 December 2012.

(15 marks)

QUESTION 3

Obeng, Ofori & Co. a firm of Chartered Accountants agreed to admit a new partner with effect from 1st July 2013. The current partners of the firm and their Profit or Loss sharing ratios are as follows:

Obeng	-	3
Ofori	-	3
Oko	-	1

The new partner, Akoele has been offered one-eighth share of profits while the old partners maintain their old profit sharing ratio. The partners do not receive interest on capital neither do they receive salaries.

The following Assets of the firm are to be revalued as follows, following the admission of Akoele:

	GH¢
Land and Building	220,000
Fixtures and Fittings	80,000
Motor Vehicles	33,000
Investments	50,000
Trade and Other Receivables	60,000

Akoele is to introduce GH¢60,000 into the firm. The other partners are to introduce cash to make up for any deficiencies in their Capital Accounts after adjusting for goodwill.

It was agreed that goodwill would be valued at the sum of three years' purchase of profits immediately preceding the date of admission.

The Profits for the previous five years are as follows:

	GH¢
Year to 30/6/2008	12,000
Year to 30/6/2009	14,500
Year to 30/6/2010	15,500
Year to 30/6/2011	18,000
Year to 30/6/2012	22,500

The Statement of Financial Position of the firm as at 30th June, 2012 is as follows:

Non-current Assets:	**GH¢**	**GH¢**
Land & Building	165,000	
Fixtures & Fittings	82,000	
Motor Vehicles	44,000	
		291,000
Investments		24,000
		315,000
Current Assets:		
Work in progress	50,000	
Trade and Other Receivables	65,000	
Bank	50,000	
Cash	5,000	170,000
		485,000
Capital Accounts:		
Obeng	140,000	
Ofori	135,000	
Oko	75,000	350,000
Current Accounts:		
Obeng	25,000	
Ofori	(20,000)	
Oko	10,000	15,000
Current Liabilities:		
Trade & Other Payables		120,000
		485,000

Required:

(a) Calculate the value of goodwill as at 1st July, 2013.

(2 marks)

(b) Prepare the Revaluation Account.

(3 marks)

(c) Prepare a Statement of Financial Position as at 1st July, 2013.

(6 marks)

(d) Prepare the Partners' Capital and Current Accounts in Columnar form.

(4 marks)

(Total: 15 marks)

QUESTION 4

(a) Supply Products Ltd. is a large paper manufacturing company. The company's Finance Director is working on the published accounts for the year ended 31st March 2013. The Chief Accountant has prepared the following list of problems which will have to be resolved before the statements can be finalized.

1. Events after the reporting date (IAS 10)

A fire broke out at the company's Spincity factory on 4th April, 2013. This has destroyed the factory's administration block. Most of the costs incurred as a result of this fire were uninsured. A major customer went into liquidation on 27th April, 2013. The customer's balance at 31st March 2010 remains unpaid. The receiver has intimated that unsecured payables will receive very little compensation, if any.

2. Possible Investment Property (IAS 40)

The company decided to take advantage of the down turn in property prices and purchased a new office building at East Legon. This was purchased with the intention of the building being resold at a profit within five years. In the meantime, the company is using the property to house the administrative staff from the Spincity factory until such time as their own offices can be repaired. It is anticipated that this will take at least nine months. The Managing Director has suggested that the building should not be depreciated.

3. Possible Development Expenditure (IAS 38)

The company paid the Engineering Department at N'asem University a large sum of money to design a new pulping process which will enable the use of cheaper raw materials. This process has been successfully tested in the University's laboratories and is almost certain to be introduced as Supper Products Ltd.'s pulping plant within the next few months.

The company paid a substantial amount to the University's Biology Department to develop a new tree species of tree which could grow more quickly and therefore enable the company's forest to produce more wood for paper manufacturing. The project met with some success in that a new tree was developed. Unfortunately, it was prone to disease and the cost of the chemical sprays needed to keep the wood healthy rendered the tree uneconomical.

4. Possible Contingent Liabilities (IAS 37)

One of the company's employees was injured during the year. He had been operating a piece of machinery which had been known to have a faulty guard. The company's lawyers have advised that the employees has a very strong case, but will be unable to estimate the likely financial damages until further medical evidence becomes available.

One of the company's customers is claiming compensation for the losses sustained as a result of a delayed delivery. The customer had ordered a batch of cut sheet with the intention of producing leaflets to promote a special offer. There was a delay in supplying the paper and the leaflets could not be prepared in time. The company's lawyers have advised that there was no specific agreement to supply the goods in time for this promotion and furthermore, that it would be almost impossible to attribute the failure of the special offer to the delay in the supply of the paper.

Required:

Explain how each of these matters should be dealt with in the published accounts for the year ended 31st March, 2013 in the light of the International Financial Reporting Standards referred to above. You should assume that the amounts involved are material in each case.

(10 marks)

(b) Progress Ltd. sells jewellery through stores in retail shopping centres throughout Ghana. In the last three years, it has experienced declining turnover and profitability and Management is wondering if this is related to the industry as a whole. It has engaged a consultant who produced average ratios of many businesses. Below are the ratios that have been provided by the consultant for the jewellery business sector based on year end of 31st December 2012.

Return on Capital employed	16.8%
Net assets to Turnover	1.4 times
Gross profit margin	35%
Operating profit margin	12%
Current ratio	1.25:1
Average Inventory turnover rate	3 times
Trade payables payment period	64 days
Debt to equity	38%

The Financial Statements of Progress Ltd. For the year ended 31st December 2012 are:

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

	GH¢ 000	**GH¢ 000**
Revenue		168,000
Opening inventory	24,900	
Purchases	131,700	
	156,600	
Closing inventory	30,600	126,000
Gross profit		42,000
Operating costs		(29,400)
Finance costs		(2,400)
Profit before tax		10,200
Income tax		3,000
Profit for the year		7,200

Statement of Financial Position as at 31 December 2012

	GH¢		GH¢
Non-current assets:			
Property and shop fittings			76,800
Deferr4ed development expenditure			15,000
			91,800
Current assets:			
Inventories	30,600		
Bank	3,000		33,600
			125,400
Equity and liabilities:			
Sated Capital			45,000
Capital surplus (Revaluations Surplus)			9,000
Income surplus			25,800
			79,800
Non-current liabilities :			
20% Loan notes			24,000
Current liabilities:			
Trade payables		16,200	
Current tax payable		5,400	21,600
Equity & liabilities			125,400

(i) Stated Capital is made up of 45,000 Ordinary Shares of no par value issued at a consideration of GH¢1000 per share.

(ii) The deferred development expenditure is in respect of an investment in a process to manufacture artificial precious gem for future sale by Progress Ltd in the retail jewellery market.

Required:

(a) Prepare for Progress Ltd. equivalent ratios that have been provided by the consultant.

(8 marks)

(b) Assess the financial and operating performance of Progress Ltd. using the consultant's ratios as benchmarks.

(8 marks)

(Total: 26 marks)

QUESTION 5

The following list of account balances relates to Ankonam Ltd. at 31st March, 2011.

	GH¢ '000	GH¢ '000
Sales revenue (note a)		716,900
Cost of sales	370,100	
Distribution costs	57,400	
Administrative expenses	30,000	
Lease rentals (note b)	40,000	
Loan (note interest paid)	4,000	
Dividend paid	24,000	
Property at cost (note c)	400,000	
Plant and equipment cost	309,600	
Depreciation 1st April 2010 – plant and equipment		69,600
Development expenditure (note d)	60,000	
Profit and disposal of non-current assets (note c)		90,000
Trade accounts receivable	110,000	
Inventories: 31st March 2011	56,480	
Cash and bank	21,320	
Trade accounts payable		58,800
Taxation: over provision in the year to 31st March 2010		4,400
Stated Capital		300,000
8% loan note (issued in 2009)		100,000
Retained earnings 1at April 2010		143,200
	1,482,900	1,482,900

The following notes are relevant:

(a) Included in sales revenue is GH¢54 million, which relates to the sales made to customers under sale or return agreements. The expiry date for the return of these goods is 30th April, 2011. Ankonam Ltd. has charged a mark-up of 20% on cost for the sales.

(b) A lease rental of GH¢40 million was paid on 1st April, 2010. It is the first of five equal annual payments in advance of the rental of an item of equipment that has a cash purchase price of GH¢160 million. The auditors have advised that this is a finance lease and have calculated the implicit interest rate in the lease as 12% per annum. Leased assets should be depreciated on a straight-line basis over the life of the lease.

(c) On 1st April, 2010 Ankonam Ltd. acquired a new property at a cost of GH¢400 million. For the purpose of calculating depreciation only, the assets have been separated into the following elements:

Separate asset	**Cost**	**Life**
	GH¢'000	
Land	100,000	freehold
Heating system	40,000	10 years
Lifts	60,000	15 years
Building	200,000	50 years

The depreciation of the elements of the property should be calculated on a straight-line basis. The new property replaced an existing one that was sold on the same date for GH¢190 million. It had cost GH¢100 million and had a carrying value of GH¢160 million at the date of sale. The profit on this property has been calculated on the original cost. It had not been depreciated on the basis that the depreciation charge would not be material. Plant and machinery is depreciated at 20% on the reducing balance basis.

(d) The figure for development expenditure in the list of account balances represents the amounts deferred in previous years in respect of the development of a new product. Unfortunately, during the current year, the government has introduced legislation which effectively bans this type of product. As a consequent of this the project has been abandoned. The directors of Ankonam Ltd. are of the opinion that writing off the development expenditure, as opposed to its previous deferment, represents a change of accounting policy and therefore wish to treat the write off as a prior period adjustment.

(a) A provision for income tax for the year to 31st March, 2011 of GH¢30 million is required.

Required:

(a) Prepare the Statement of Comprehensive Income of Ankonam Ltd. for the year ended 31st March, 2011.

(b) Prepare a Statement of Financial Position as at 31 March, 2011; and

(c) Discuss the acceptability of the company's proposed treatment of the deferred development expenditure.

(20 marks)

PUBLIC SECTOR ACCOUNTING

QUESTION 1

The following are the balances extracted from the Public Accounts on the Consolidated Fund for the year ended 31 December 2012.

	GH¢'000
Direct Tax	1,044,460
Compensation of Employees	808,672
Goods & Services	404,336
Non-Financial Assets	134,779
Indirect Tax	939,556
Grants	28,110
Interest Expenses	398,138
Social Benefits	238,882
Other Expenses	159,255
Other Revenue	50,928
National Health Insurance Levy	79,368
Depreciation and Amortization	20,524
Loan Repayments	3,056,000
Levies	27,184
Loans Received	4,245,150
Loan Recoveries	1,166
Other Payments	68,428
Cash and Bank Balances as at 1/1/2012	813,462

Required:

(a) Prepare Receipts and Payments of the Consolidated Fund for the year ended 31st December 2012.

(b) Statement of Cash and Bank balances at the beginning and end of year ended 31st December 2012.

(c) State the five (5) components of the financial statements of the Public Accounts of the Consolidated Fund.

(20 marks)

QUESTION 2

(a) Source documents are original documents for processing financial transactions and serve as objective evidence of transactions.

Required:

As the Accountant of an MDA, mention five (5) source documents you will require to process payment for the construction of a two classroom block for Donkokrom JSS.

(5 marks)

(b) While the roles and responsibilities of the public and the private sector partners differ in individual partnership initiatives, the Public-Private –Partnership agreements may be achieved under various forms.

Required:

Briefly explain the underlisted common forms of Public-Private-Partnership (PPP) in the provision of infrastructure in the Public Sector:

(i) Operation and Maintenance
(ii) Build-Operate-Transfer (BOT)
(iii) Build-Transfer-Operate (BTO)
(iv) Build-Own-Operate (BOO)
(v) Concession

(10 marks)

(c) The doctrine of Due Process is an assurance that there is compliance with the procurement law by all parties to Government contracts.

Required:

State five (5) benefits of Due Process in public procurement.

(5 marks)

(Total: 20 marks)

QUESTION 3

(a) The Annual Estimate is prepared in accordance with the budget circular received from the Minister of Finance setting out the policy to be followed and the date for its submission.

Required:

State and explain any **five** important budgetary policy objectives of government which the preparation of the annual estimate helps to achieve.

(5 marks)

(b) Briefly explain two (2) roles each of the following Institutions in public financial management:

(i) Cabinet
(ii) Public Accounts Committee
(iii) Heads of MDAs

(6 marks)

(c)

Section 30(i) of the Audit Service Act 2000 (Act 584) requires all Institutions subject to Audit by the Auditor General, including MDA and MMDAs to set up Audit Report Implementations Committees (ARIC).

List four (4) roles and responsibilities of the Committee.

(4 marks)

(d)
A Local Government Unit has planned to invest in a developmental project.

Required:

Outline Five (5) factors that the Unit should take into consideration before investing in the project.

(5 marks)

QUESTION 4

a)

A government Agency has permission from the Office of the President to dispose of some store items and vehicles by public auctions.

Required:

Enumerate five (5) procedures required to be followed for the disposal of the Assets.

(5 marks)

b)

The power to tax, borrow and create money to meet the aspiration of the Ghanaian public and to raise their standard of living is based on the sovereign authority of the state.

Required:

State five (5) factors which the Government takes into consideration before borrowing.

(5 marks)

c)

The Auditor General or any person appointed by him to Audit the accounts of statutory corporations shall draw attention to certain financial information in accordance with applicable statutory provisions.

Required:

Identify five (5) financial information which the Auditor General is required by law to express his opinion on, in the audit of statutory corporations.

(5 marks)

d)

Cash control relates to the co-ordinated actions which have to be taken by each and every MDA in order to prevent cash losses and misuse.

Required:

State five (5) cash control measures that can be adopted by an MDA.

(5 marks)

(Total: 20 marks)

QUESTION 5

The following are the balances extracted from the Public Accounts on the Consolidated Fund of the Government of Ghana for the year end 31st December, 2012.

	GH¢
Other Payments	14,200
Fixed Assets	20,000
Inventory	25,008
Work-In-Progress	12,120
Sales of Fixed Assets	15,230
Shares and Other-equity Purchased	28,130
Advances Received	14,008
Advances Paid	583
Securities other than Sales	62,175
Goods and Services Costs	202,168
Compensation of Employees	381,420
Social Benefits	79,628
Interest Paid	318,511
Taxes	976,778
Grants	14,056
Other Revenues Received	25,464
Other Receipts	53,277
Domestic Loans Acquired	2,122,575
External Debts Paid	8,245
Domestic Loans Paid	1,519,756

Required:

a) Prepare Consolidated Fund Statement of Cash flow for the year ended 31st December 2012.

(10 marks)

b) What is the differences among Gross Debt, Total Liabilities and Net Debt as stated in the Statement of Financial Position of the Government.

(6 marks)

c) State two importance of reporting the cost of services in the Revenue and Expenditure Accounts of the Government of Ghana.

(4 marks)

(Total: 20 marks)

THE INSTITUTE OF CHARTERED ACCOUNTANTS [GHANA]

COST AND MANAGEMENT ACCOUNTING

NOVECMBER 2013 SOLUTIONS

QUESTION 1

MAX CONSTRUCTION LTD.

	GH¢	GH¢	GH¢
Statement of Profit:			
Value of Contract			250,000
Less: Cost to date:			
Materials	94,000		
Direct Labour Cost	25,000		
Direct Expenses	10,000		
Depreciation	18,000		
Overheads Head	32,250	179,250	
Estimated Cost to Completion:			
Direct Materials	12,000		
Director Labour	10,000		
Overheads	5,500	27,500	
			206,750
Expected Profit			43,250

Percentage of Completion

$$\frac{\text{Cost to date}}{\text{Cost to date + Cost to Complete}} = \frac{179{,}250 \times 100\%}{206{,}750}$$

$$= 86.69\%$$

Profit to be transferred

$$\frac{86.69}{100} \times 43{,}250 = \text{GH¢}37{,}493.43$$

Closing WIP

Cost to date	179,250	
Less mat on site	20,000	159,250
Add Profit taken		37,493
		196,743
Less cash taken		180,000
		16,743

OR

Work completed not certified	15,000
Add Retention	20,000
	35,000
Less unrealized Profit	18,257
	16,743

Note Unrealized Profit

Value of Certificate	200,000
Add Mat x WCNC	35,000
	235,000
Less Cost to date	179,250
	55,750
Less Profit taken	37,493
	18,257

Just In Time: Conditions for successful operation

(i) Reliable Supply Source: The suppliers of materials and other inputs should have that capacity to respond quickly and meet all orders.

(ii) Skilled Workforce: The employees should be skilled enough to handle the unit production line to ensure defect free products.

(iii) Staff should be flexible to operate as many machines as possible. This will ensure that where one operator is indisposed others can stand in for him.

(iv) The production line should be well set out to ensure smooth flow of that production process.

QUESTION 2

A]

JACK LTD.

Calculation of variances

(i) Material price variance

(SP – AP) Actual Qty purchased
(3 – 4) 22,000 = <u>22,000 Adv.</u>

(ii) Material usage variance

(Std Qty of Actual Prodn – Act Qty purchased) Std rate

{(15 x 1400) - 22,000} 3 = <u>3,000 Adv.</u>

(iii) Wage rate variance
(Std rate – Actual rate) Act. Hrs.

(4-5) 6800 = <u>6,800 Adv.</u>

(iv) Labour efficiency variance
Std of Act Prodn – Act labour) Std rate

{(5 x 1400) – 6,800} 4 = <u>800 Fav.</u>

(v) Variable overhead efficiency variance
(Std hrs – actual hrs of actual prodn) VOAR

(7,000 – 6,800) 2 = <u>400 Fav</u>

Variable overhead Expenditure Variance

Budgeted fixed Overhead – Actual Variance overhead

(6,800 x 2) – 11,000 = <u>2,600 Adv</u>.

(vii) Fixed overhead expenditure variance
Budgeted Fixed Overheads – Actual Fixed hrs

(1,000 x 5) – 6,000 = <u>1,000 Adv</u>

(viii) Fixed overhead efficiency

(Shrs of Act Prodn – Act lab hrs) FOAR

{(1400 x 5) - 6800} 1 = <u>200 Fav.</u>

(ix) Fixed overhead capacity variance

(Act labour hrs – Budgeted lab hrs) FOAR

{6,800 – (1,000 x 5)} 1 = <u>1,800 Fav</u>

(x) Sales margin price variance

(Act Sales Px – Std Price) Act Qty Sold

{(102 – 80) - 20} 1,200 = <u>2,400 Fav</u>

Budgeted profit calculation

Std Margin x Budgeted Production

20 x 1,000 = 20,000

RECONCILIATION OF BUDGETED AND ACTUAL PROFIT

	Adv	Fav	GH¢
Budgeted Profit			20,000
• Sales Margin Px		2,400	
• Sales Margin Volume		4,000	
• Material Px	22,000		
• Material Usage	3,000		
• Wage rate	6,800		
• Lab efficiency		800	
• Var Ohd Exp		400	
• Var Ohd Eff.		2,600	
• Fixed Ohd Exp	1000		
• Fixed Ohd Eff		200	
• Fixed Ohd Capacity		1,800	
	32,800	**12,200**	
• Net adverse variance			(20,600)
Actual Profit/ (loss)			(600)

QUESTION 3

A]

PMT LTD.

(i) Current ROCE:

	A	**B**
Profit = Sales	240,000	420,000
Cost	180,000	330,000
	60,000	90,000
Asset Employed:		
Fixed Assets	1,010,000	2,300,000
Net Current Assets	50,000	250,000
	1,060,000	2,550,000
ROCI	60,000	90,000
	1,060,000	2,550,000
	5.66%	3.53%

	A	**B**
Proposal	60,000 - 4,800 + 20,000	90.000 – 9000 + 45,000
	1,060,000 – 30,000 + 75,000	2,550,000 – 120,000 + 180,000
	75,200	126,000
	1,105,000	2,110,000
	6.8%	4.83%

Proposal should be accepted:

(ii) Residual Income

	A	B
Profit	60,000	90,000
Cost of Capt	84,800	204,000
	(24,800)	(114,000)

Proposal

	A	B
Profit	75,200	126,000
Cost of Capt	88,400	208,800
	(13,200)	(82,800)

Proposal should be accepted

B]

- Lack of participation
- High and unattainable targets
- Lack of support by management
- Use of Budgets only to punish
- Limited dissemination of budget information

QUESTION 4

A]

i. Absorption costing basis:

	Jan (GH¢)	**Feb (GH¢)**	**Mar (GH¢)**
Opening stock at GH¢75/unit	-	300,000	-
Production cost at GH¢75/unit	675,000	225,000	300,000
	675,000	525,000	300,000
Less closing stock @ GH¢75/unit	300,000	-	
	375,000	525,000	300,000
Under/ (over) recovery of fixed overheads (W1)	(15,000)	75,000	60,000
Cost of Sales	360,000	600,000	360,000
Sales	500,000	700,000	400,000
Gross Profit	40,000	100,000	40,000
Less: Selling & Dist. Cost	50,000	50,000	50,000
Net Profit	90,000	50,000	(10,000)

WORKINS 1

(W1) Fixed overheads are recovered at GH¢15 per unit. The estimated activity level is therefore 8000 units (120,000/15 recovery rate). In January actual production is identical to estimated activity, but in February actual production is 3000 units. Hence there is an under recovery of GH¢75,000 (5000 units x GH¢15) in February.

i. Marginal Costing basis:

	Jan (GH¢)	Feb (GH¢)	Mar (GH¢)
Opening stock at GH 60/unit	-	240,000	-
Production cost at GH¢60/unit	540,000	180,000	240,000
	540,000	420,000	240,000
Less closing stock @ GH¢60/unit	240,000	-	-
Cost of sales	300,000	420,000	240,000
Sales	500,000	00,000	400,000
Contribution	200,000	280,000	160,000
Fixed Cost:			
Production Overhead	(120,000)	(120,000)	(120,000)
Less: Selling & Dist. Cost	(50,000)	(50,000)	(50,000)
Net Profit	30,000	110,000	(10,000)

B]

Some Arguments in support of variable costing:

i. Variable costing provides more useful information for decision-making;-

The separation of fixed and variable costs helps to provide relevant information about cost for making decisions.

ii. Variable costing removes from costing the effect of inventory charges:-

Where stock levels are likely to fluctuate significantly, profits may be distorted when they are calculated in an absorption costing basis since the stock changes will significantly affect the amount of fixed overheads allocated to an accounting period.

iii. Variable costing avoids fixed overheads being capitalized in unsalable stocks:-

In absorption costing, a portion of the fixed overheads incurred during the period will be allocated as an expense because the surplus stocks. If these closing stocks cannot be disposed of, the profit calculation for the current period will be misleading.

Some arguments in support of absorption costing:

i. Absorption costing does not understate the importance of fixed costs;-

It is argued that the use of an absorption costing system, by allocating costs to a product, ensures that fixed costs will be covered. However, this argument is incorrect.

ii. Absorption costing avoids Fictions losses being reported.

QUESTION 5

A] Principles to consider when setting up a Cost Accounting System

- The system should be adopted to suit that general organization of that particular business. The operating system should not be varied to suit an already designed accounting model.
- The technical aspect of the business should be carefully studied. It is the technical aspect that will determine that accounting processes to be designed.
- The accountant should seek the support of the principal staff. Design and installation of an accounting system is a team work to be able to link the key departments.
- The minimum amount of details in which records are to be compiled should be arranged.
- Records to be provided by foremen and other grades of workers should involve as little clerical work as possible.
- Frequency, promptitude and regularity in the presentation of cost and statistics must be arranged.

B]

i. Economic Order Quantity:

This is the quantity of items that should be bought such that total inventory cost will be at minimum.

Inventory costs are (1) Cost of that inventory i.e. quantity times the cost price, ordering cost and holding cost.

Any quantity less than or greater than the EOQ will increase total inventory cost.

$$EOQ = \sqrt{\frac{2DCo}{CH}}$$

iii. Maximum stock level

This is the level above which stocks should not normally be allowed to rise when the that order is placed. In other word when consumption rate is low and lead time is short what will be the stock when the consignment requested arrive?

$$\text{Maximum SL} = \text{ROL} - (\text{min consumption} \times \text{min LT}) + \text{ROQ}$$

THE INSTITUTE OF CHARTERED ACCOUNTANTS [GHANA]

FINANCIAL MANAGEMENT STRATEGY

NOVEMBER 2013 SOLUTIONS

QUESTION 1

(A)(i) Shareholder value maximization means maximizing the returns that investors expect in exchange for becoming a shareholder. The wealth of shareholders is measured by regular payment of dividend and appreciation in the share price.

Shareholders' wealth maximization is preferred to profit maximization due to the following:

i. It considers risk associated with cash flow.
ii. Cash flow is paid to shareholders not profit.
iii. It considers the timing of cash flows.
iv. Profit is value and can be manipulated.

(ii) Non-financial goals are:

i. Motivated staff
ii. Environmental friendliness
iii. Social responsibility
iv. Provision of quality goods or services
v. Growth.

(iii) Preference shares are not popular source of finance because:

i. They are less tax efficient
ii. They are riskier than debt since there is right to receive a preference dividend.

(B) i. Interest rate swap is an agreement between two parties to exchange fixed rate for floating rate. Currency swap is an agreement between two parties to exchange financial obligation in different currencies.

ii.

	Fixed	**Floating**
ABC	20%	BLR + 4.5%
XYZ	15%	BLR + 3.5%
	5	(1)

1. XYZ should borrow at fixed 15%
2. ABC should borrow at BLR + 4.5%
3. XYZ to assume the responsibility of floating rate: BLR + 4.5%
4. ABC to assume the responsibility of fixed rate of 15%.
5. Gain = 5% - 1% = 4%.

QUESTION 2

(a) A company may issue shares or obtain a quotation or listing on the stock exchange by the following means/methods.

(i) Placement

Under this method, shares are issued at a fixed price to a number of institutional investors. The issue is normally underwritten by the issuing company's sponsor who is usually a merchant bank. Essentially, this method carries a little risk and has low transaction cost.

(ii) Offer for sale of fixed price

Under this method, shares are offered to the public with the help of a sponsoring bank at a fixed price. The issue is also underwritten so that the company is guaranteed to receive the finance it needs. There, any shares on offer which are not taken up will be bought by the underwriters at an agreed price.

(iii) Offer for sale by tender

Here, the public is invited to bid for available shares at prices in excess of a minimum decided by the issuing company. The price which ensures that all the shares on offer are sold is called the striking prices. Available shares are than allocated on a prorate basis to investors who have bidded at or above the minimum prices. Excess monies will then be returned to unsuccessful bidders.

(iv) Intermediaries offer

Under this method, all member firms of the stock exchange can apply for shares which they can subsequently pass onto their clients.

(B) NYIRA LIMTIED

Annual Credit Sales	GH¢4,700,000 per annum
Average Credit Period	45 days
Interest rate per annum	3% @ 4 = 12%
Overdraft rate	12% + 2.5% = 14.5%

Annual Cost		**GH¢**
45/365 @ GH¢4,700,000 @ 14.5%	=	84,021
Bad Debt 1% @ GH¢4,700,000	=	47,000
		131,021

Cost of the Factor

Credit sale finance 80% @ GH¢4,700,000 = GH¢3,760,000

Credit period = 30 days

20% of credit sales finance by O/D 20% @ Gh¢4.700,000 = GH¢940,000

Annual Cost				**GH¢**
Factor's finance	=	30/365 @ 3,760,000 @ 12%	=	37,085
Overdraft	=	30/365 @ GH¢940,000 @ 14/5%	=	11,203
				48,288
Cost of factor service (0.625 @ 4) = 2.5% @ 4,700,000				117,500
Less Administration Cost				(100,000)
Net cost/(benefit) of the factor				65,788

CONCLUSION

The factor option is cheaper by (131 021 – 65,788) = GH¢65,233. Management is therefore advised to accept the services of the factor.

QUESTION 3

(a) Net Present Value (NPV) is generally superior because of the relationship between future cash flows and shareholder wealth. If the company accepts a positive NPV project then, at least in theory, shareholder wealth should rise by the same amount. Using this criterion should align the decisions taken by management with the interest of the shareholders.

NPV gives a sound basis for comparing alternative projects because it gives an absolute value, with no ambiguity as to which is the better.

NPV works because it take account of the time value of money which is ignored by many other methods. Payback and accounting rate of return make not allowance whatsoever for the timing of receipts.

NPV can also make allowance for risk by building a risk premium into the discount rate.

(b) Phone Cards – Economic Order Quantity

i. $$EOQ = \sqrt{\frac{2 \times DO}{HC}}$$

D = 600,000 units

O = GH¢40

HC = GH¢3

$$EOQ = \sqrt{\frac{2 \times 600{,}000 \times 40}{3}} = 4{,}000 \text{ units}$$

ii. Total Inventory cost per annum

$$\text{No. of order in a year} = \frac{\text{Demand}}{\text{EOQ}}$$

$$= \frac{600{,}000}{4{,}000} = 150 \text{ times}$$

$$\text{Average Stock} = \frac{EOQ + O}{2}$$

$$= \frac{4{,}000 + O}{2} = 2{,}000 \text{ Units}$$

Inventory cost			**GH¢**
Ordinary cost	150 x 40	=	6,000
Holding cost	2,000 x 3	=	6,000
			12,000

(c) Ama Serwaa

i. Plan 1 a = 500

$r = 7\% \left(\frac{0.07}{2} = 0.035\right)$

$$Fv = a\left(\frac{C1 + r)^n - 1}{r}\right)$$

$$Fv = 500\left(\frac{(1 + 0.035)^{20} - 1}{0.035}\right)$$

= Fv = GH¢14,139.84

ii Plan 2

a = 1,000 r = 7.5% n = 10

$$Fv = 1.000\left(\frac{(I + r)^n - 1}{r}\right)$$

$$Fv = 1,000\left(\frac{(1+0.0750)^{10} - 1}{0.075}\right)$$

Fv = GH¢14,147.09

QUESTION 4

(a) From transaction GH¢ million

Incremental Revenue	70
Cost	30
	40

PV of the gain = $\frac{40}{20}$

GH¢200

Cost of Transaction

i. Cost = Cash offer - PV RR
55 = 205 - 150

NPV of Transaction

ii. NPV = Gain - Cost
145 = 200 - 55

iii. Cost (of share offer) = 320 - 150 = 170

iv. NPV (of share offer) = 200 - 170 (30

v. 1. MM has no Cash
2. MM is pessimistic about the transaction.

1. Convince shareholders that the offer is not in their interest.
2. Demand high severance package
3. Counter off to the predator company.
4. Announce Dividend increase
5. Make the company look unattractive
6. Refer to merger commissioner of court.

(b) ORG Ltd.

Y1 Do
Y2 O
Y3 1
Y4 i(1 + 0.03) = 1.03
Y5 1.3(1 + 0.06) = 1.0918

Y6 1.0918 (1 + 0.10) = 1.20098

$$P6 = \frac{D_6}{r-g} = \frac{1.20098}{0.20 - 0.10} = 12.0098$$

$$Po = 0 + 0 + \frac{1}{(1.20)^3} + \frac{1.03}{(1.20)^4} + \frac{1.0918}{(1.20)^5} + \frac{12.0098}{(1.20)^6}$$

= 0 + 0 + 0.5787 + 0.4967 + 0.4300 + 4.8264

= GH¢6.3407

QUESTION 5

FARFRAE COMPANY LTD

One year Cycle Cash flows

The Lowest Common Multiple = 6

Year	Replacement Cost GH¢	Operating Cost GH¢	Residual Value GH¢	Net Cash Flow GH¢
0	(20,000)	-	-	(20,000)
1	(20,000)	(4,000)	14,000	(10,000)
2	(20,000)	(4,000)	14,000	(10,000)
3	(20,000)	(4,000)	14,000	(10,000)
4	(20,000)	(4,000)	14,000	(10,000)
5	(20,000)	(4,000)	14,000	(10,000)
6		(4,000)	14,000	10,000

Equivalent Annual Cost

One year replacement Cycle

	0	1	NPV
Cost	(20,000)		
Operating Cost		(4,000)	
Residual value		14,000	
	(20,000)	10,000	
DF @ 10%	1	0.909	
PV	(20,000)	9,090	(10,910)

EAC = (10,910) 1.909 = (12,002)

Two year Cycle Cash flows

Lowest Common Multiple

Year	Replacement Cost GH¢	Operating Cost GH¢	Residual Value GH¢	Net Cash Flow GH¢
0	(20,000)	-	-	(20,000)
1	-	(4,000)	-	(4,000)
2	(20,000)	(8,000)	10,000	(18,000)
3	-	(4,000)	-	(4,000)
4	(20,000)	(8,000)	10,000	(18,000)
5	-	(4,000)	-	(4,000)
6		(8,000)	10,000	2,000

Year 2 Equivalent Annual Cost

	0	**1**	**2**	**NPV**
Cost	(20,00)			
Operating cost		(4,000)	(8,000)	
Scrap			10,000	
	(20,000)	(4,000)	2,000	
DF @ 10%		0.909	0.826	
	(20,000)	(3,636)	1,652	(21,984)

EAC = $\frac{(21,984)}{1.735}$ = (12,671)

Three year Cycle Cash flows

Lowest Common Multiple

Year	Replacement Cost GH¢	Operating Cost GH¢	Residual Value GH¢	Net Cash Flow GH¢
0	(20,000)	-	-	(20,000)
1	-	(4,000)	-	(4,000)
2	-	(8,000)	-	(18,000)
3	(20,000)	(10,000)	8,000	(22,000)
4	-	(4,000)	-	(4,000)
5	-	(8,000)	-	(8,000)
6		(10,000)	8,000	2,000

Equivalent Annual Cost

Discount all Cash Flows to get the present value of cost

	0	1	2	3	NPV
Cost	(20,00)				
Operating cost		(4,000)	(8,000)	(10,000)	
Residual Value				8,000	
	(20,000)	(4,000)	8,000	(2,000)	
DF @ 10%	1	0.909	0.826	0.751	
	(20,000)	(3,636)	6,608	(1,502)	(31,746)

EAC = $\frac{(31,746)}{2.48\%}$ = (12,671)

Year	Discount Factor 10%	1st Year Cycle GH¢	PV GH¢	2nd Year Cycle GH¢	PV Cycle GH¢	3rd Year GH¢	PV GH¢
0	1	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
1	0.909	(10,000)	(9,000)	(4,000)	(3,636)	(4,000)	(3,636)
2	0.826	(10,000)	(8,260)	(18,000)	(14,868)	(8,000)	(6,608)
3	0.751	(10,000)	7,510	(4,000)	(3,004)	(22,000)	(16,522)
4	0.683	(10,000)	(6,830)	(18,000)	(12,294)	(4,000)	(2,732)
5	0.621	(10,000)	(6,210)	(4,000)	(2,484)	(8,000)	(4,968)
6	0.565	10,000	5,560	2,000	1,130	(2,000)	(1,130)
			52,250		55,156	55,596	

Decision

Farfrae should replace the asset every year.

THE INSTITUTE OF CHARTERED ACCOUNTANTS [GHANA]

FINANCIAL REPORTING

NOVEMBER 2013 SOLUTIONS

QUESTION 1

(A) ACCOUNTING CONCEPTS

- **Matching/Accruals**

The accruals basis required transactions (or events) to be recognized when they occur (rather than on a cash flow basis). Revenue is recognized when it is earned (rather than when it is received) and expenses are recognized when they are incurred (i.e when the entity has received the benefit from them), rather than when they are paid.

- **Prudence**

Prudence is used where there are elements of uncertainty surrounding transactions or events. Prudence requires the exercise of a degree of caution when making judgments or estimates under conditions of uncertainty. Thus when estimating the expected life of a newly acquired asset, if we have past experience of the use of similar assets and they had had lives of (say) between five and eight years, it would be prudent to use an estimated life of five years for the new asset.

- **Comparability**

Comparability is fundamental to assessing the performance of an entity by using its financial statements. Assessing the performance of an entity over time (trend analysis) requires that the financial statements used have been prepared on a comparable (consistent) basis. Generally this can be interpreted as using consistent accounting policies (unless a change is required to show a fairer presentation). A similar principle is relevant to comparing one entity with another; however it is more difficult to achieve consistent accounting policies across entities.

- **Materiality**

Information is material if its omission or misstatement could influence (economic) decisions of users based on the reported financial statements. Clearly an important aspect of materiality is the (monetary) size of a transaction, but in addition the nature of the item can also determine that it is material. For example the monetary results of a new activity may be small, but reporting them could be material to any assessment of what it may achieve in the future. Materiality is considered to be a threshold quality, meaning that information should only be reported if it is considered material. Too much detailed (and implicitly immaterial) reporting of (small) items may confuse or distract users.

(B) ACCOUNTING FOR INVENTORY

Accounting for inventory, by adjusting purchases for opening and closing inventories is a classic example of the application of the accruals principle whereby revenues earned are matched with costs incurred. Closing inventory is by definition an example of goods that have been purchased, but not yet consumed. In other words the entity has not yet had the 'benefit' (i.e. the sales revenue they will generate) from the closing inventory; therefore the cost of the closing inventory should not be charged to the current year's income statement.

At the year end, the value of an entity's closing inventory is, by its nature, uncertain. In the next accounting period it may be sold at a profit or loss. Accounting standards require inventory to be valued at the lower of cost and net realizable value. This is the application of prudence. If the inventory is expected to sell at a profit, the profit is deferred (by valuing inventory at cost) until it is actually sold. However, if the goods are expected to sell for a (net) loss, then that loss must be recognized immediately by valuing the inventory as its net realizable value.

There are many acceptable ways of valuing inventory (e.g. Average Cost or FIFO). In order to meet the requirement of comparability, an entity should decide on the most appropriate valuation method for its inventory and then be consistent in the use of that method. Any change in the method of valuing (or accounting for) inventory world break the principle of comparability.

For most businesses inventories are a material item. An error (omission or misstatement) in the value or treatment of inventory has the potential to affect decisions users may make in relation to financial statements. Therefore (correctly) accounting for inventory is material event. Conversely there are occasions where on the grounds of immateriality certain 'inventories' are not (strictly) accounted for correctly. For example, at the year-end a company may have an unused supply of stationery. Technically this is inventory, but in most cases companies would charge this 'inventory' of stationary to the income statement of the year in which it was purchased rather than show it as an asset.

Note: other suitable examples would be acceptable.

Gross earnings allocated over the period of the lease are:

(GH¢39,200 million - GH¢33,550 = GH¢5650.4 million). Allocation based on finance provided is as follows:

Period	**Net Cash Investment At start of period**	**Rentals**	**AV Cash Inv. in Period**	**Interest**	**Net Cash Inv. at end of Period**
2013	33,550	11,200	22,350	4,023	26,373
2014	26,373	11,200	15,173	2,731	17,904
2015	17,904	11,200	6,704	1,207	7,911
			44,227		

(i) Income statement for the year ended 31 December, 2003 (Extract)

	GH¢
Turnover	33,550
Cost of Sale	25,200
Gross Profit	8,350
Interest receivable under finance lease	4,023
Direct lease expense (16,800/3)	(5,600)

(ii) Statement of financial position (extract) as at 31 December.

	2013 GH¢	**2014 GH¢**
Prepaid Expenses	11,200	5,600
Investment in Finance Lease		
Current	9,352	11,620
Non-Current	17,021	6,284
	26,373	17,904

(b) Given the value of the rentals compared to a reasonable estimate of the fair value, the lease appears to be a finance lease. Although the seller/lesser appears to have made a "profit" of GH¢9,956 million (GH¢24,956 million - GH¢15,000 million), the substance of the arrangement is that the seller/lessee has taken out a loan of GH¢24,956 million on which it will pay finance charges. The asset remain in the Statement of financial position at GH¢15,000.

Relevant journal entries in the books of Saviour Enterprise (SE) are as below:

	Dr GH¢	Cr GH¢
Bank	24,956	
Obligation under finance lease		24,956
Being sale of assets under leaseback agreement and recognition of liability		
Obligation under finance lease	5,056	
Income statement (Finance charge)	2,443	
Bank		7,500
Being rental paid to cover finance charge and to Reduce obligation under Finance lease		
Income statement	3,750	
Accumulated Depreciation		3,750
Being the depreciation charged for the year (15,000/4 years)		

Workings:

	GH¢
'Sale'	24,956
Net book value	(15,000)
Profit on sale	9,959

QUESTION 2

A]

ADIDOME GROUP LTD
STATEMENT OF FINANCIAL POSITION AS TAT 31 DECEMBER 2012

NON-CURRENT ASSETS	**GH¢**
Property, Plant & Equipment (80,000 + 52,000 + 200,000 –1,500)	138,700
Intangibles (W3)	15,600
	154,303
CURRENT ASSETS	
Inventory (18,000 + 12,000 – 800)	29,200
Trade & Other Receivables (62,700 + 21,100)	83,800
Cash & Bank Balances (10,000 + 5,500 + 500)	16,000
	129,000
Total Assets	283,300
EQUITY & LIABILITIES	
Trade & Other Payables (35,000 + 11,000)	46,000
Total Liabilities	46,000
EQUITY FUNDS	
Stated Capital	120,000
Income Surplus (W5)	58,800
Capital Surplus (W4)	41,000
Non-Controlling Interest	17,500
TOTAL EQUITY FUNDS	237,300
Total Liabilities & Equity	283,300

WORKINGS

(1) GROUP STRUCTURE

Adidome	80%
NCI	20%

(2) NET ASSETS OF AKATSI LTD.

	At Reporting Date GH¢	At Acquisition GH¢
Stated Capital	60,000	60,000
Capital Surplus	13,000	13,000
Income Surplus	16,000	8,000
Revaluation Surplus	2,000	2,000
PURP	(800)	-
Additional account dep.	(1,500)	-
	88,700	83,000

Post-acquisition = GH¢5,700

(3) GOODWILL

	GH¢
Cost of Investment	84,000
NCI at acquisition	16,800
	100,800
Net Assets at acquisition	(83,000)
	178,000
Impairment	(2,200)
	15,600

(4) Consolidated Income Surplus

Adidome Ltd	56,000
Akatsi Ltd. (80% x 5,700 (W2)	4,560
Less: Goodwill impairment to date (80% x 2,200) (W3)	(1,760)
	58,800

(5) Non-Controlling Interest

Fair Value @ acquisition	16,800
Share Post-acquisition Profit (20% of 5,700)	1,140
Goodwill (20% x 2,200)	(440)
	17,500

B] ADJUSTMENTS – ELIMINATION OF UNREALIZED PROFITS

If one company holds inventories at the year-end which have been acquired from another group Company, this will include a profit element that is unrealized from a group perspective. Here Akatsi Ltd has sold goods to Adidome Ltd. As cost plus 25%. The mark-up of 25% will only become realized when the goods are sold to a third party. Therefore, if any intra-group inventory is still held at the year end, it must be eliminated from the consolidated accounts. This will require an adjustment of GH¢800 (4,000 x 25/125) as follows:

Debit Akatsi Ltd's Income Surplus (W2)	GH¢800
Credit Consolidated Inventory	GH¢800

As well as eliminating, the unrealized profit, this reduces inventory back to its original cost to the group.

QUESTION 3

A] GOODWILL

Year to 30/6/2010	15,500
30/6/2011	18,000
30/6/2012	22,500
	56,000

Obeng	3	-	24,000	(56,000 x 3/7)
Ofori	3	-	24,000	(56,000 x 3/2)
Oko	1	-	8,000	(56,000 x 1/7)

B] REVALUATION ACCOUNT

Land & Building	165,000	Land & Building	220,000
Furniture & Fittings	82,000	Furniture & Fittings	80,000
Motor Vehicles	44,000	Motor Vehicles	33,000
Investment	24,000	Investments	50,000
Debtors & Prepayments	65,000	Debtors & Prepayments	60,000
Obeng	27,000		
Ofori	27,000		
Oko	9,000		
	443,000		443,000

OBENG, OFORI & CO.
STATEMENT OF FINANCIAL POSITION AS AT 1ST JULY 2013

	GH¢	GH¢
NON-CURRENT ASSETS		
Land & Building		220,000
Furniture & Fittings		75,000
Motor Vehicle		30,000
		325,000
Investments		60,000
		385,000
CURRENT ASSETS		
Work in Progress	50,000	
Trade & Other Receivables	58,000	
Bank (50 + 60 + 17)	127,000	
Cash	5,000	240,000
		625,000
CAPITAL & LIABILITIES		
EQUITY		
Obeng	167,000	
Ofori	162,000	
Oko	84,000	
Akoele	53,000	466,000
CURRENT ACCOUNTS		
Obeng	28,000	
Ofori	-	
Oko	11,000	
Akoele	-	39,000
CURRENT LIABILITIES		
Trade & Other Payables		120,000
		625,000

CAPITAL ACCOUNTS

	Obeng GH¢	Ofori GH¢	Oko GH¢	Akoele GH¢		Obeng GH¢	Ofori GH¢	Oko GH¢	Akoele GH¢
Bal c/d	167,00	162,000	84,000	53,000	Bal.	140,000	135,000	75,000	-
					Cash				53,000
					Reval.	27,000	27,000	9,000	-
	167,000	167,000	84,000	53,000		167,000	167,000	84,000	53,000
					Bal. b/d	167,000	162,000	84,000	53,000

CURRENT ACCOUNTS

Bal.		20,000			Bal.	25,000	-	10,000	-
Goodwill	21,000	21,000	7,000	7,000	Goodwill	24,000	24,000	8,000	-
Bal. c/d	21,000	-	11,000	-	Cash	-	17,000	-	7,000
	40,000	41,000	18,000	7,000		49,000	41,000	18,000	7,000

QUESTION 4

A]

(a) IAS 10 Events after the Reporting Date divides such events into two categories: adjusting events and non-adjusting events. Adjusting events provide additional evidence of conditions existing at the reporting date, while non-adjusting events relate to conditions that did not exist at the reporting date.

The fire broke out on 4th April, after the reporting date on 31 March, so this is a non-adjusting event. There is no evidence of a fire sincerely simmering at the reporting date and exploding into life on 4th April; the evidence is that there was no fire at 31st March. So the details of the fire should be disclosed in a note to the accounts, so that readers can reach a proper understanding of the company's affairs.

The major customer went into liquidation on 27th April. However the customer owed a material balance on 31 March and it is now clear that this balance is not recoverable. The liquidation is therefore an adjusting event, and supper Paper Products should write off the bad debt in its financial statement prepared to 31st March, 2010.

(b) IAS 40 Investment Property states that properties which are held for their investments potential should not be depreciated. However, IAS 40 defines an investment property quire precisely, and specifically excludes a property owned and occupied by a company for its own purposes. The new office building is owned by Super Paper products and it occupied by the staff of Spintex factory, so it cannot be an IAS 40 investments property. The managing director's suggestion is therefore unacceptable, and the building must be depreciated according to the company's normal depreciation policy for buildings.

(c) IAS 38 Intangible Assets splits research and development expenditure into two categories: research expenditure and development expenditure. Research expenditure should be written off as incurred; development expenditure should be carried forward as an asset if all of the following can be demonstrated:

(i) The technical feasibility of the project;
(ii) The intention to complete the project and used or sell it;
(iii) The ability to use or sell the item;
(iv) How the project will generate probable future economic benefits;
(v) The availability of adequate technical, financial and other resources to complete the project.
(vi) The ability to measure the expenditure reliably.

The new puling process does seem to satisfy the conditions listed above, so the cost to date should be carried forward in the statement of financial position as an intangible non-current asset.

The attempt to develop a new species of tree definitely fails to satisfy the conditions listed above. It is not commercially viable and may not overall recover its costs, so expenditures on the project should be written off as incurred. There is no option to defer any of the related costs to future accounting periods.

(d) IAS 37 Provision, Contingent Liabilities and contingent Assets defines a contingent liability as:

(i) A possible obligation that arises from past events and shoes existence will be confirmed only by the occurrence of one or more uncertain future evens not wholly within the control o the enterprise; or

(ii) A present obligation that arises from past events but is not recognized because:

- It is not probable that a transfer of economic benefits will be required to settle the obligation: or

- The amount of the obligation cannot be measured with sufficient reliability.

Unless the possibility of any transfer in settlement is remote, an enterprise is required by IAS 37 to disclose for each class of contingent liability at the reporting date a brief description of the nature of the contingent liability and where practicable.

(i) An estimate of its financial effect;

(ii) An indication of its uncertainties relating to the amount or timing of any outflow; and

(iii) The possibility of any reimbursement.

A present obligation of the employee arising from his injuries exits, though we are advised that it is not possible to quantify the liability. There are two possible course of action in accounting for this inter. The lawyers could be pressed to make a prudent estimate of the amount of damages, perhaps form preliminary medical reports, and this estimate should then be provided in the account if the lawyers still insist that such an estimate is impossible, there no point in guessing on a value to accrue. Instead the facts should be disclosed as contingent liability in a note to the accounts, stating that no liability has currently been recognized since a fair estimate is impossible. However, it is important that this note is worded in such a way that no liability is admitted, for this might prejudice the company's potion in subsequent legal proceedings.

The second case is clearer cut. Lawyers have advised that there was no specific agreement to supply the paper in time for the promotion, so any possible liability is remote. IAS 37 does not require the disclosure of remote contingencies; they should be completely ignored in the account if the probability of an outflow of economic resources is remote.

B]

PROGRESS LTD.
SPECIFIED RATIOS FOR COMPARISON WITH THOSE OF THE CONSULTANTS

		Progress Ltd.	**Consultant**
1.	Return on Capital Employed		
	(10,200 + 2,400)/ (76,800 + 24,000) x 100		
	$\frac{12,600}{103,800} \times 100$	2½%	16.8%
2.	Net Asset Turnover		
	$\frac{168,000}{103,800}$	1.6 times	1.4 times
3.	Gross Profit Margin		
	$\frac{42,000}{168,000} \times 100$	25%	35%
4.	Operating Profit Margin		
	$\frac{12,600}{168,000} \times 100$	7½	12%
5.	Current Ratio		
	$\frac{33,600}{21,600}$	1.6:1	1.25:1
6.	Average Inventory Turnover		
	(24,900 + 30,600)/2 = 27,750		
	126,000/27,750	4.5 times	3 times
7.	Trade Payables Payment Period		
	$\frac{16,200}{131,700} \times 365$	45 days	64 days
8.	Debt to Equity		
	$\frac{24,000}{79,800}$	30%	38%

(b) Assessment of Comparative Performance

Profitability

The primary measure of profitability is return on capital employed. Progress Ltd. is ROCE of 12½% is significantly lower than the consultants' figure of 16.8%. The main cause of this underperformance seems to be the lower gross profit margin of 25%. However, one can also conclude that Progress Ltd. Is deliberately charging a lower mark up in order to increase sales by under cutting the market. This would explain the higher inventory turnover at 4.5 times which is 50% better than the consultants' figure presumably the industrial/sector average.

The lower gross profit margin has fed through to contribute to a lower operating profit margin of 7.5% compared to 12%. However, it seems Progress ltd has controlled its operating cost better since operating costs constitute 17.5% of its revenue (25 - 7½) when the sector average is 23% (35% - 12%) of revenue.

The lower ROCE may be due to poor assets utilization. It appears the rate for Progress Ltd may have been distorted partly by the revaluation of property and the capitalization of the differed development expenditure which has been included in the net assets, as the net revenues expected form the development have not come on stream.

Liquidity

The current ration of Progress Ltd of 1.6:1 which is below the norm 2:1 is better than the sector average of 1.25:1. The norm 2:1 is generally applicable and appropriate to manufacturing concerns where the operating cycle is long. In the case of retail firms, operating with 1.6:1 current ratio is not much of a worry. Indeed it's better than the sector average.

With a higher and better current ratio, higher inventory turnover of 4.5 times against sector average of 3.5 times and trade payable payment of 45 days instead of 64 days indicate conclusively that Progress Ltd has no pressing liquidity issues.

Gearing

The debt to equity ratio of Progress Ltd of 30% is an improvement over the sector average of 38%. However the loan note interest of 20% which is higher than the return on capital employed of12.1% implies that shareholders might be losing and therefore it would not be in their interest to go for more loans. The finance charges of GH¢2,400,000 suggest that the loan was taken on July 1, 2012. If full year's interest of GH¢4,800,000 would have had a more telling effect on profitability.

Conclusion

Management is right to be concerned with the profitability of Progress Ltd on the contrary, Progress Ltd is performing quite well in terms of liquidity and gearing.

QUESTION 5

ANKONAM

(A) STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31ST MARCH, 2011

	GH¢
Revenue (716,900 – 54,000)	662,900
Cost of Sales (W1)	(417,100)
Gross Profit	245,800
Distribution Costs	(57,400)
Administration Expenses	(30,000)
Profit on disposal of land & building (190,000 – 160,000)	30,000
Loss on abandonment of research project	(60,000)
Finance Cost (W3)	(22,400)
Profit before tax	106,000
Tax Expenses (30,000 – 4,400)	(25,600)
Profit for the year	80,400

B]

ANKONAM
STATEMENT OF FINANCIAL POSITION AS AT 31ST MARCH, 2011

	GH¢	GH¢
Tangible Non-current Assets		
Property [400,000 – 12,000 (W2)]		388,000
Plant and Equipment (W4)		320,000
		708,000
Current Assets		
Inventories (56,480 + 45,000)	101,480	
Accounts receivables (110,000 – 54,000)	56,000	
Cash	21,320	178,800
		886,800
Equity and Liabilities		
Stated Capital		300,000
Retained Earnings (W5)		259,600
		559,600
Non-current Liabilities		
Amount due under Finance Lease (W6)		94,400
8% Loan Notes		100,000
Current Liabilities		
Trade and Other Accounts Payable (W7)		102,800
Income Tax Payable		30,000
Total Equity and Liabilities		886,800

C] The directors' proposed treatment of the deferred development expenditure is incorrect. It needs to be written off because its value has become impaired due to adverse legislation, not a change of accounting policy. It now has not effect value.

There has therefore not been a change of accounting policy, so it cannot be treated as a period adjustment. It must be written off to the statement of profit or loss.

	ANKONAM
WORKINGS	**GH¢**
(W1 Cost of Sales	
Per TB	370,100
Less Sales/Return $(54,000 \times \frac{100}{120})$	(45,000)
Add Depreciation (W2)	92,000
	417,100
(W2) Depreciation	
Building (200,000 + 50)	4,000
Healing System (40,000 + 10)	4,000
Lift (60,000 + 15)	4,000
Leased plant (160,000 x 20%)	32,000
Owned Plant (309,600 – 69,600) x 20%	48,000
	92,000
(W3) Finance Cost	
Loan Note Interest (100,000 x 8%)	8,000
Finance Lease (160,000 – 40,000) x 12%	14,400
	22,400
(W4) Plant and Equipment	
Cost: Owned Plant	309,600
Leased Plant	160,000
Depreciation: Owned plat (69,600 + 48,000)	(117,600)
Leased Plant (160,000 x 20%)	(32,000)
	320,000

(W5) Retained Earnings

	GH¢
Balance b/f	143,200
Profit for the year	80,400
Revaluation Surplus Transfer (160 – 100)	60,000
Dividends Paid	(24,000)
	259,600

(W6) Lease Table

Yr	Bal. b/f	Rental	Bal. Outstanding	Int. at 12%	Bal. c/f
2010	160,000	(40,000)	120,000	14,400	134,400
2011	134,400	(40,000)	94,400	11,328	105,728

(W7) Trade and Other Payables

Trial Balance	58,800
Amounts due under Finance Lease (120,000 – 94,400)	25,600
Accrued Interest (120,000 x 12%)	14,400
Accrued Loan note interest (100,000 x 8% - 4,000)	4,000
	102,800

THE INSTITUTE OF CHARTERED ACCOUNTANTS [GHANA]

PUBLIC SECTOR ACCOUNTING

NOVEMBER 2013 SOLUTIONS

QUESTION 1

A]

STATEMENT OF RECEIPTS AND PAYMENT OF THE CONSOLIDATED FUND FOR THE YEAR ENDED 31ST DECEMBER 2012

RECEIPTS	**GH¢**
Direct Tax	1, 044,460
Indirect Tax	939,556
Grants	28,110
Other Revenue	50,928
National Health Insurance Levy (NHIL)	79,368
Levies	27,184
Loans Received	4,245,150
Loans Recoveries	1,166
Total Receipts	**6,415,922**
PAYMENTS	
Compensation of Employees	808,672
Goods and Services	404,336
Non-Financial Assets	134,779
Interest	398,138
Social Benefits	238,882
Other Expenses	159,255
Loan Repayments	3,056,000
Other Payments	68,428
Total Payments	5,268,490
Excess of Receipts over Payments	**1,147,432**

B]

STATEMENT OF CASH AND BANK BALANCES
FOR THE YEAR ENDED 31ST DECEMBER 2012

	GH¢
Cash and Bank balances as at 1/1/2012	813,462
Excess of Receipts over Payment during the year	1,147,432
Cash and Bank balances as at 31/12/2012	**1,960,894**

C]

The Financial Statement of the Consolidated Fund comprise:

(1) Statement of Financial Position or Balance Sheet
(2) A Statement of Revenue and Expenditure
(3) A statement of Receipts and Payments
(4) A Cash flow Statement
(5) Notes to the Accounts

QUESTION 2

A]

The required source documents include:

(a) Ministry of Finance release letter and warrant

(b) Controller & accountant General's Department warrant

(c) Payment certificate

(d) Invoice and Vat Invoice

(e) Contract Agreement

(f) Award letter

(g) Evaluation Report

(h) Public Procurement Agency approval if restricted tendering method was used in procuring the contract

(i) Evidence of advertisement in the dailies if competitive tendering method was used

(j) Purchase Orders (PO) and Store Received Advice (SRA)

B]

(1) OPERATION AND MAINTENANCE

In this model, the public authority contracts with a Private Partner to operate and maintain a publicly owned facility or infrastructure.

(2) BUILD-OPERATE-TRANSFER (BOT)

In this model of PPP the private party is responsible for the Building and Operation of the Infrastructure, which is used by the Public Sector. The ownership of the assets has to be transferred to the Public Sector at the end of the contract.

(3) BUILD-TRANSFER-OPERATE (BTO)

This form of PPP is close to BOT, but in this form the Public Sector becomes the owner of the infrastructure from the very beginning of the contract.

(4) BUILD-OWN-OPERATE (BOO)

Under this form, the Private Party provides for the construction, financing and operation of the asset or infrastructure. The Private Sector will fully own the asset under financing.

(5) CONCESSION

In this form of PPP, "the Public authority entrusts to a third party, the total or partial management of services for which that authority would normally be responsible and for which the third party assumes the risk."

The ownership of assets remains usually within the Public Sector, while the Private Party is entitled to cover its expenditure through imposition of user fees.

C]

BENEFITS OF DUE PROCESS IN PROCUREMENT

1. To safeguard public funds and assets
2. To improve fiscal management through more efficient and effective expenditure
3. To enhance transparency and accountability in Governance
4. To rebuild public confidence in Government financial activities
5. To ascertain that Government receives value for money expended
6. To improve the system of planning and diligent project analysis leading to the accuracy of costing and prioritization of investment.

QUESTION 3

A] - BUDGETARY POLICY OBJECTIVES OF GOVERNMENT

(1) ESTIMATE OF REVENUE AND EXPENDITURE

Through the annual estimate government is able to know the project revenue and expenditure of the country for the budgeted year.

(2) ALLOCATION OF NATIONAL RESOURCES

Government through the annual estimate is able to know the allocation of funds for various programmes including capital and recurrent expenditure.

(3) SECTORAL DISTRIBUTION

Through the estimates government is able to know the allocation of funds by sectors, regions and districts.

(4) PUBLIC DEBTS AND INVESTMENTS

Government through the annual estimate is able to know whether it will have a surplus or deficit on its current accounts and plan whether to borrow to meet the deficit or invest surplus funds. It is also able to decide on the appropriate level and structure of public debt required to meet a deficit.

(5) FISCAL AND MONETARY POLICIES

It is through the annual estimate that government is able to plan its fiscal policy (policy on taxation) or monetary policy (policies on incomes, price stability and inflation).

B] ROLES OF INSTITUTIONS

(1) CABINET

Decision on government policies are taken by the executive arm of government as represented by the office of the President and Cabinet. Government policies and decisions invariably involve financial outlays, therefore the office of the President and Cabinet have to exercise careful control on the government budget by making decisions, choices and policies which do not overburden the Ghanaian tax payer.

(2) PUBLIC ACCOUNTS COMMITTEE

This Committee of Parliament examines the audited accounts of government in detail, probing into instances of apparent waste, extravagance, fragrant disregard to regulations etc. and summons Heads of Departments on whose accounts the Auditor –General adversely report on to appear before it.

(3) HEADS OF MMDAS

These are responsible for the management, administration and implementation of the objectives of government. Their financial management functions are:

- To regulate the financial management of the public sector

- Prescribe the responsibilities of persons entrusted with financial management in MAAs and MMDAs and

- To ensure the effective and efficient management of state revenue, expenditure control, assets, liabilities and resources of government.

C] The roles and responsibilities of Audit Report Implementation Committee [ARIC] include:

1. Ensure the implementation of the recommendations in all audit reports of energy MDA or MMDA.

2. Follow-up Auditor-General and Public Accounts Committee's recommendations as well as recommendations in Internal Audit Report.

3. Provide advice to management on:

   - Risk management
   - Internal Controls
   - Compliance with laws, regulations ethical standards

4. Annually prepare a statement showing the status of implementation of recommendations made in all Audit Reports.

D] FACTORS TO CONSIDER BEFORE INVESTING IN A PROJECT

1. Objectives are to be defined in relation to the long-term fundamental aims of the public sector organization concerned.

2. There is the need for a technical feasibility which should identify whether there are legal or political constraints. Proposed investment projects may have an impact on other projects or may be dependent on the acceptance of other projects and the relationship of projects will have to be taken into consideration.

3. It is important to assess the magnitude of the costs and benefits or cost effectiveness of the project and also the expected timeframe they will occur.

4. It is important to realize that a sewage project may give the best value for money but political factors and the need to respond to changes in governmental and societal pressures may often make the implementation of the project difficult.

5. Environmental Considerations

6. Availability of funds or financing consideration

QUESTION 4

A] PROCEDURES FOR THE DISPOSAL OF ASSETS

1. POLICY IMPLICATIONS

The budget is a financial and quantitative statement that represents a number of intents and policies. Although it identifies and quantifies targets and provides a framework for management and control, the budget is essentially a forecast. As such budgets require constant reviews to meet the objectives of the state.

2. PLANNING

Budget planning process requires detailed information of past performance, determination of the present position and forecasting of the future. The planning process must provide information about the structure and behaviour of expenditure, sources and trends in revenue and demands of various government activities and functions. There is therefore the need for constant monitoring of activities and programmes to ensure that actual performance conforms with plans and corrective actions are taken on deviations from plans.

3. DECISION MAKING

Budgetary review aids and stimulates decision making, choices, priorities, timing, resource volume and expenditure. It assists the government to obtain detailed and better understanding of how to formulate plans and achieve its objectives.

4. BUDGET IMPLEMENTATION

Actual performance of government compared with the budget may provide variances, which should indicate the appropriate governmental action to be taken to steer its operations in order to achieve its objectives. Budgetary review is an essential tool to ensure that the implementation process stay on course.

B] FACTORS TO CONSIDER BEFORE BORROWING

1. COST OF BORROWING

The government wants to be sure that the cost of borrowing is as low as possible and that it will not make unnecessary commitments, repayments and so on.

2. TERM OF LOAN

The government ensures that the most appropriate type of loan is obtained with regard to its term. For example, if funds are required to cover expenditure (debt) payments at the beginning of a month that will be covered by tax receipts two weeks later then only short-term debt should be incurred. This will then be redeemed using the receipts.

3. **CASH FORECAST**

The government ensures that it has information to properly plan cash requirements. The government needs to know when receipts are expected and payments must be made. It can then make an informed decision on the amount and timing of the debt to be incurred.

4. **TYPE OF LOAN**

The type of debt to be incurred by government ought to be decided and negotiations entered into to achieve the best terms possible. Early repayments, which reduce interest charges, may also be planned if it is apparent that there will be surplus revenue.

5. **INFRASTRUCTUAL NEEDS**

6. **REVENUE GENERATION**

7. **POLITICAL EXPEDIENCY**

C] FINANCIAL INFORMATION TO BE EXPRESSED IN AUDITOR GENERAL'S REPORT

(a) The profitability, liquidity, stability and solvency of the corporation, and also the performance of the shares of the corporation on the capital markets where relevant.

(b) Whether there was delay in the payment of the government portion of any declared dividend, if any, into the consolidated fund.

(c) Any significant cases of fraud or losses and the underlying causes

(d) The internal control weakness noted, and

(e) The general corporate performance indicating:

- Achievement against set targets and objectives and
- Whether the finances of the body have been conducted with due regard to economy, efficiency and effectiveness having regard to the resources utilized.

D] CASH CONTROL MEASURES

1. Regular balancing of cash books
2. Establishment of cash limits
3. Daily banking of all takings
4. Periodic cash counts
5. Preparation of cash reconciliation statements
6. Provision of a fire proof safe
7. Investment of idle funds

QUESTION 5

A]

CONSOLIDATED FUND

STATEMENT OF CASHFLOW FOR THE YEAR ENDED 31ST DECEMBER. 2012

OPERATING ACTIVITES	**GH¢**
Other Payments	(14,200)
Goods and services costs	(202,168)
Compensation of employees	(381,420)
Social Benefits	(79,628)
Interest paid	(318,511)
Taxes	976,778
Grants	14,056
Other Revenues Received	25,464
Other Receipts	53,277
INVESTING ACTIVITIES	
Fixed Assets	(20,000)
Inventory	(25,008)
Work-in-Progress	(12,120)
Sale of Fixed Assets	15,230
Shares and other equity purchased	(28,130)
Advances Recovered	14,008
Advances Paid	(583)
Securities other than shares	(62,175)
FINANCING ACTIVITIES	
Domestic Loans acquired	2,122,575
External Debts Paid	(8,245)
Domestic Loans Paid	(1,579,756)

B]

GROSS DEBT

It describes the total debt a government owes to outsiders. Gross debt represents only a part of a government's total liabilities. It is just one item reported on the statement of financial position.

TOTAL LIABILITIES

It represents all of the amounts the government owes to external parties, including, government employees. They include accounts payable, issued debts, employee pension and other obligations as well as other amounts owing to individuals and organization outside of the government.

NET DEBT

It describes one indicator of government financial position. This indicator takes into account the value of many items reported in the statement of financial position. It is calculated as the difference between the sum of all of a government's financial assets and the sum of all its liabilities.

C]

REASONS FOR REPORTING THE COST OF SERVICES

1. Provides accountability for the total costs of services for each major government function.

2. Allows readers to compare costs with those incurred in the prior year and with those of the budget.

3. Allows financial statements users to compare the costs of each government functions to its total costs and thus obtain information about the government priorities for example the percentage of the services to the total government revenue.