students

journal

ICAG

JULY/SEPTEMBER 2020

THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES

www.icagh.com

INTEGRITY

THE INSTITUTE OF CHARTERED ACCOUNTANTS (GHANA)

STUDENTS JOURNAL
JULY/SEPTEMBER 2020

THEME:
THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES


content

PROMOTING THE INTEGRITY OF THE ACCOUNTING PROFESSION: THE ROLE OF THE PROFESSIONAL ACCOUNTANT

.

By Joseph Kum

In looking for people to hire, look for three qualities: integrity, intelligence and energy. And if they don't have the first, the other two will kill you."
(Warren Buffett)

Introduction
Integrity is a sacred principle that many professional establishments, whether private or public, strive to associate with. It runs through either in their mission statements, vision statements or core values that they aspire to achieve. It is not surprising therefore, to understand why the motto of Ghana Police Service reads "Service with Integrity" whilst the term "Integrity" was also chosen as a motto by the Institute of Chartered Accountants, Ghana.

Nevertheless, various professions are generally tagged with one form of negative perception or the other. The military is known for their brutality, the judiciary destined as liars, corruption is mostly associated with the police and the accountants described by many as thieves. Right from childhood we keep hearing that accountants could enrich themselves illegally by simply adding zeros to figures. Whether these perceptions are factual or mere allegations, they have significant influence on the way the public perceive the members of such professions. As White and White, (2006) put it "Substantial and sustained erosion of trust would be a major blow to a profession that requires the honoring of public trust in its code of professional conducts".

But what motivates people to believe and generalise that accountants are not trustworthy? Certain unethical behaviours on the part of few obstinate and recalcitrant accountants have strengthened this unfortunate public attacks on the integrity of this prestigious and noble profession. The continuous promulgation of such unfortunate behaviors in the media has even worsen matters for the profession's image. A classic example is the Enron's Corporation Scandal as reported by the Wall Street Journal in 2001. In this issue a once reputable organisation collapsed overnight a as result of, among other things, deliberate fictitious financial reporting practices which sought to conceal losses and deteriorating assets on the part of its chief finance officer; coupled with intentional approval of such financial records by its external auditors. These events keep unfolding. According to Addo (2011, p.11) "After the Enron debacle in 2001 came other scandals involving large US companies such as WorldCom, Global Crossing and the auditing lacunae that eventually led to the collapse of Andersen".

The recent turmoil in the Ghanaian banking sector did not speak well of professional accountants. Falsification of financial statements of some collapsed banks in the country went on without detection by the auditors. Akalaare (2018, para. 6) reported that:

In the case of the five banks – Royal, Construction, BEIGE, Unibank and Sovereign – whose licenses were withdrawn on August 1, Mr. Andani said some of their auditors failed to live up to their sacred responsibilities as objective examiners of financial statements and independent checks against fraudulent activities in now defunct banks.

By failing to detect the irregularities and flag same in the audited accounts, Mr. Andani stated that the auditors "failed everybody" – from shareholders to customers – who relied on the audited accounts of the erstwhile banks to make decisions.

This article seeks to examine the concept of integrity as well as the normative ethical theories that underpin the concept of integrity. Next it summarises the ethical guidelines expected to be complied with by professional accountants in the performance of their duties as enshrined in the Code of Ethics developed by International Federation of Accountants (IFAC).

The Concept of Integrity

The concept of integrity has been elaborated extensively by various scholars. In my opinion, the concept connotes purity. Being pure implies that one is totally free from guilt. It has to do with being blameless and faultless for behavior or an action one undertakes. It has to do with morality.

In the views of Brenkert (2005, p.5) "Corporate integrity then becomes virtually synonymous with acting morally". Morality is therefore seen as a pre – requisite for achieving integrity. "A person of moral integrity will characteristically be committed to a "right' action, 'desirable' ideal or 'just' principle" (Halfon, 1989, as cited in Schöttl, 2015, p.3). References are normally made to objective standards in judging what is morally right. Integrity is achieved when one actions are in accordance with values that are morally justified on objective basis; and hence moral commitment becomes the bedrock in building personal integrity.

The term is sometimes defined from its etymology. It originates from the Latin word "integras" meaning wholeness or unity. This means that the achievement of integrity is dependent on something being complete and undivided. "A dominant perspective is in line with the meaning of the Latin word integras: intact, whole, harmony, with integrity as "wholeness" or completeness, as consistency and coherence of principles and values" (Montefiore & Vine, 1999 as cited in Hubert, 2018).

The concept is also examined in details in the legal profession. The utilitarian approach in making judgement has been heavily criticized by Dworkin's "Theory of Law as Integrity". Dworkin believe that the positivists approach leads to judges and lawyers being unconstrained when adjudicating hard cases. He emphasizes that when judges consider which way is the best to solve legal issue, they should not only look at what positive law is applicable in a certain case but taking an interpretive approach to law as a social practice. That is in deciding hard cases, judges and lawyers are expected to interpret laws in the light of generally acceptable societal values, principles and morals which ascribe integrity, fairness and objectivity to decisions reached in judicial adjudication.

Others think the concept is closely related to ethics. It is seen as professional conduct than merely drawing a line between "what is good" and "what is bad". Integrity means that a professional exercises his tasks adequately, carefully and responsibly, taking into account all relevant interests (Karssing, 2001; 2007, as cited in Hubert, 2018). It involves professionals exercising duty of care in the execution of services to their clients.

According to International Ethics Standards Board for Accountants (IESBA, 2018, p.18) of IFAC, integrity means "to be straight forward and honest in all professional and business relationships". Professional accountants are required to follow certain ethical principles when rendering services to their client in order to satisfy all relevant stakeholders interests.

Ethical Theories

Ethical theories are concerned with what we ought to do when faced with ethical dilemma. Three basic normative theories of ethics that give better explanation as why people take a particular ethical decision over the other are:

1. *Utilitarian ethics*

This is the first philosophical or normative theory of ethics. The theory simply focuses on the maximization of utility (happiness) for the majority of people or society. The founder of the theory, Jeremy Bentham (1748–1832) defined utility as "that property in any object, whereby it tends to produce benefit, advantage, pleasure, good, or happiness…[or] to prevent the happening of mischief, pain, evil or unhappiness to the party whose interest is considered". John Stuart Mill (1806–1873) was British philosopher and a proponent of utilitarianism. The rule of thumb is when confronted with ethical paradox, the guiding principle is to choose the action that provide the greatest good for the greatest number. Decision makers look at the consequence of an action rather than the action itself in determining what is ethical and as a result the theory is sometimes called consequentialism. The theory is characterized by impartiality and agent neutrality. The benefit gained for promoting the good is the same for all. What motivates one to promote the good is the same thing that motivates others to promote the good.

2. Deontology

This theory is the direct opposite of Bentham's Utilitarian Theory. It doesn't concern itself with consequences of action but rather the reasons behind a particular action. Immanuel Kant (1724–1804) argued that morality is achieved if actions meet standard of rationality. Kant believed that everyone has duties and rights to one another and these duties and rights ought to be respected by all. Some actions are absolute. These are obligations to do certain types of actions. He calls these general type of obligation Categorical Imperative (CI) because they fall within a category. The CI was formulated in two ways:

- The first is 'Act only by that maxim by which you can, at the same time, will that it be a universal law'. This expresses condition of rationality.
- The second, which expresses morality is 'So act as to treat humanity, whether in your own person or that of any other, in every case as an end in itself, never as a means only'.

3. Virtuous Theory

The third normative theory looks at the character of individuals rather than the consequences of their actions or the rationality of actions they undertake. The theory takes inspiration from Aristotle who emphasised the role of character and virtue in moral philosophy instead of either doing one's duty or acting in order to bring good consequences. Aristotle claimed that a moral person is the one who has ideal character traits. He believed that these traits are natural internal tendencies which need to be nurtured, and they become stable once they are established. Hursthouse (1991, p.226) explained that "a virtue is character traits a human being needs to flourish or live with". The theory is about discovering what constitute good life, how one should live, and what values are considered proper for the family and society. For example, a virtuous person is one who is generous at all times and in every situation because that is his character and not that he wants to maximize specific utility.

Hursthouse (1991) briefly compares the three theories to pinpoint their relationships as outlined in Table 1 below:

Table 1
The Relationships Between Normative Theories

	Consequentialism	Deontology	Virtue Theory
Example	Mill's Utilitarianism	Kantian Ethics	Aristotle's Moral Theory
Abstract Description	An action is right if it promotes the best consequences.	An action is right if it is in accordance with a moral rule or principle.	An action is right if it is what a virtuous agent would do in the circumstances.
More Concrete Specification	The best consequences are those in which happiness is maximized.	A moral rule is one that is required by rationality	A virtuous agent is one who acts virtuously, that is, one who has and exercises the virtues. A virtue is a character trait that a human being needs to flourish or live well.

Adapted from "Virtue Theory and Abortion" by L. Hursthouse, 1991, Philosophy and Public Affairs, Vol.20(3)

Compliance with the Ethics of the Profession
The best way of uplifting the image of the profession is to show commitment toward compliance with all the ethical guidelines as enshrined in the Code of Ethics of the accounting profession. The onus is on us to constantly study and abreast our knowledge on recent developments or changes in the code of ethics of the profession. IFAC as an umbrella body of professional accountants worldwide seeks to develop, adopt and implement a high – level quality international ethics standards for its members through support from IESBA. This is done with the objective of serving the interest of the public. The Code of Ethics is divided into three main categories: Fundamental Principles of Ethics, The Conceptual Framework and Independence of the Auditor.

1. Fundamental Principles of Ethics
Section 110 of the Code outlines five fundamental principles that every professional accountant must uphold. These are:

- ***INTEGRITY***

That is accountants are expected to be straightforward and honest in all professional and business relationships. This involves being truthful and fair in all dealings. The Code further states that an accountant shall not knowingly associate with reports, returns, communications or other information where the accountant believes that the information:

- Contains a materially false or misleading statement;
- Contains statements or information provided recklessly; or
- Omits or obscures required information where such omission or obscurity would be misleading.

- ***OBJECTIVITY***

Professional accountants are not to compromise on their judgements. The principle of objectivity requires accountants to be unbiased and eschew conflict of interest.

- Professional Competence and Due Care

In discharging their duties, accountants are to bring forth their professional skills to bear. It involves attaining and maintaining professional knowledge at a level required to ensure that client receives competent professional service based on current technical and professional standards and legislation.

- Confidentiality

The principle tends to caution accountants against unlawful disclosure of vital information obtained in the course of duty to a third party. Confidentiality principle is about maintenance of secrecy pertaining to accounting information.

- Professional Behaviour

Professional behaviour is about the manner in which accountant conducts his business or activities. Accountant is required to act in a manner that does not bring impairment to the image of the profession. He should comply with relevant laws and regulations and abstain himself from behaviours that might discredit the good reputation of the profession.

2. The Conceptual Framework

The conceptual Framework is provided in section 120 of the Code. The framework deals with the identification of threats to compliance with fundamental principles, evaluation of these treats and application of safeguards to the treats. The framework is synonymous to Albert Humphrey's SWOT Analysis as depicted in Figure 1.

Figure 1

SWOT Analysis

- ***Identification of Threats***

Section 200.6 A1 of the Code provides specific examples of facts and circumstances that might create threats to the professional accountant when undertaking professional activity:

- ***Self Interest Threats***
- A professional accountant holding a financial interest in, or receiving a loan or grantee from, the employing organisation.
- A professional accountant participating in incentive compensation arrangements offered by the employing organisation.
- A professional accountant having access to corporate assets for personal use.
- A professional accountant being offered a gift or special treatment from supplier of the employing organisation.
- Self-review Threats
- A professional accountant determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.
- Advocacy Threats
- A professional accountant having the opportunity to manipulate information in a prospectus in order to obtain favourable financing.
- Familiarity Threats
- A professional accountant being responsible for the financial reporting of the employing organisation when an immediate or close family member employed by the organisation makes decisions that affect the financial reporting of the organisation.
- A professional accountant having a long association with individuals influencing business decisions.
- Intimidation Threats
- A professional accountant or imme-

diate or close family member facing the threat of dismissal or replacement over disagreement about:

- The application of accounting principle.
- The way in which financial information is to be reported.
- An individual attempting to influence the decision –making process of the professional accountant.

- *Evaluating Threats*

Section 120.7 of the Code states that "When the professional accountant identifies threat to compliance with the fundamental principles, the accountant shall evaluate whether such a threat is at an acceptable level". An acceptable level is a level at which a professional accountant using the reasonable and informed third party test would conclude that the accountant complies with the fundamental principles. The Section identifies the following factors to be applied in evaluating the level of threats:

- The consideration of qualitative as well as quantitative factors is relevant in the professional accountant's evaluation of threats, as is the combined effect of multiple threats, if applicable.
- The existence of conditions, policies and procedures described in paragraph 120.6 A1 must also be factors that are relevant in evaluating the level of threats to compliance with the fundamental principles. Examples of such conditions, policies and procedures include:
- Corporate governance requirement,
- Educational, training and experience requirement for the professional accountant and the general public to draw attention to unethical behaviour.
- Effective complaints systems which enable the professional accountant and the general public to draw attention to unethical behaviour.
- An explicitly stated duty of report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

- Addressing Threats

Section 120, again provides that if the professional accountant determines that the identified threats are not at an acceptable level, the accountant shall address the threats by eliminating them or reducing them to an acceptable level. The accountant shall do so by:

- Eliminating the circumstances, including interests or relationships, that are creating the threats;
- Applying safeguards, where available and capable of being applied, to reduce the threats to acceptable level; or
- Declining or ending professional activity.

3. *Independence of the Auditor*

The independence of the auditor is also addresses in the Code in Part 1, Section 120. The International Independence Standards requires professional accountants in public practice to be independent when performing audits, reviews or other assurance engagements. The Section links independence to fundamental principles of objectivity and integrity. It comprises;

- *Independence of the mind*

The state of the mind that permits the expression of a conclusion without being affected by the influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

- Independence in appearance

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or audit or assurance team member's integrity, objectivity or professional skepticism has been compromised. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirement.

Conclusion

As professionals as we are, we cannot afford to bring the hard earned image of our noble profession to disrepute. We must be mindful of threats that pose hindrances to the compliance with the fundamental principles and refer to the Code when faced with ethical dilemma in the execution of professional assignments; then public confidence would be forestalled.

References

Addo, A. (2011, June). Corporate governance – Historical perspective, The Professional Accountant, 10-11.

Akalaare, M. A. (2018, August 7). Collapse of banks: Auditors failed everybody. Graphic Online, https://www.graphic.com.gh/business/business-news/collapse-of-banks-auditors-failed-everybody.html

Beard, V. (1994). Popular culture and professional identity: Accountants in movie. Accounting, Organizations and Society, Vol.19(3), 308–18.

Brenkert, G. G. (2004, Ed.). Corporate integrity & accountability, Sage Publications Essays, UK. (November, 2018). Dworkin theory of law as integrity, https://www.ukessays.com/essays/philosophy/theory-of-law-as-integrity-philosophy-essays.php?vref=1
Holt, P. (1994). Stereotypes of accounting professionals as reflected in popular movies, accounting students and society. New Accountant, April, 24–5.

Hubert, L. W. J. C. (2018). Integrity: What it is and why it is important? Public Integrity, Vol.20(Sup1) http://doi: 10.1080/10999922.2018.1477404
Hursthouse, L. (1991). Virtue theory and abortion, Philosophy and Public Affairs, Vol.20(3) p.226

International Federation of Accountants, IFAC. (2018, ed.), Handbook of the international code of ethics for professional accountants.

Schöttl, L. (2015). The concept of moral integrity and its implications for business, KICG – Forschungspapiere, No.9 http://hdl.handle.net/10419/125929

White, G. & White, M. (2006). Perception of accountants: What are they after Enron and WorldCom? Journal of College Teaching and Learning, Vol.3(11), 71–5.

THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES

By Alhassan Trawule

The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities establishes the concepts that are to be applied in developing International Public Sector Accounting Standards (IPSASs) and Recommended Practice Guidelines (RPGs) applicable to the preparation and presentation of general purpose financial reports (GPFRs) of public sector entities.

The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. Consequently, the performance of such entities can be only partially evaluated by examination of financial position, financial performance and cash flows. GPFRs provide information to users for accountability and decision-making purposes. Therefore, users of the GPFRs of public sector entities need information to support assessments of such matters as:

- Whether the entity provided its services to constituents in an efficient and effective manner;
- The resources currently available for future expenditures, and to what extent there are restrictions or conditions attached to their use;
- To what extent the burden on future-year taxpayers of paying for current services has changed; and
- Whether the entity's ability to provide services has improved or deteriorated compared with the previous year.

The Conceptual Framework has been organized into chapters as explained below:

CHAPTER 1: ROLE AND AUTHORITY OF THE CONCEPTUAL FRAMEWORK

Role of the Conceptual Framework

The Conceptual Framework establishes the concepts that underpin general purpose financial reporting (financial reporting) by public sector entities that adopt the accrual basis of accounting. The International Public Sector Accounting Standards Board (IPSASB) applies these concepts in developing IPSASs and Practice Guidelines applicable to the preparation and presentation of general purpose financial reports (GPFRs) of public sector entities.

Authority of the Conceptual Framework

The Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor does it override the requirements of IPSASs or RPGs. Authoritative requirements relating to the recognition, measurement and presentation of transactions and other events and activities that are reported in GPFRs are specified in IPSASs.

The Conceptual Framework can provide guidance in dealing with financial reporting issues not dealt with by IPSASs or RPGs. In these circumstances, preparers and others can refer to and consider the applicability of the definitions, recognition criteria, measurement principles, and other concepts identified in the Conceptual Framework.

General Purpose Financial Reports (GPFRs)

GPFRs are financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs.

Applicability of the Conceptual Framework

The Conceptual Framework applies to financial reporting by public sector entities that apply IPSASs. Therefore, it applies to GPFRs of national, regional, state/provincial and local governments. It also applies to a wide range of other public sector entities including:

- Government ministries, departments, boards, commissions, agencies;
- Public sector social security funds, trusts, and statutory authorities; and
- International governmental organizations.

CHAPTER 2: OBJECTIVES AND USERS OF GENERAL PURPOSE FINANCIAL REPORTING

Objectives of Financial Reporting

The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes.

Users of General Purpose Financial Reports

- Taxpayers, donors, lenders and other resource providers
- The legislature and members of parliament make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers.
- Citizens receive services from, and provide resources to, the government and other public sector entities.
- Multilateral or bilateral donor agencies and many lenders and corporations that provide resources to, and transact with, a government;
- Government statisticians, analysts, the media, financial advisors, public interest and lobby groups and others may find the information provided by GPFRs useful for their own purposes.
- Regulatory and oversight bodies, audit institutions, subcommittees of the legislature or other governing body, central agencies and budget controllers, entity management, rating agencies and, in some cases, lending institutions and providers of development and other assistance.

Accountability and Decision Making

The primary function of governments and other public sector entities is to provide services that enhance or maintain the well-being of citizens and other eligible residents. Those services include, for example, welfare programs and policing, public education, national security and defense services. In most cases, these services are provided as a result of a non-exchange transaction and in a non-competitive environment.

Governments and other public sector entities are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term. The discharge of accountability obligations requires the provision of information about the entity's management of the resources entrusted to it for the delivery of services to constituents and others, and its compliance with legislation, regulation, or other authority that governs its service delivery and other operations. Given the way in which the services provided by public sector entities are funded (primarily by taxation revenues or other non-exchange transactions) and the dependency of service recipients on the provision of those services over the long term, the discharge of accountability obligations will also require the provision of information about such matters as the entity's service delivery achievements during the reporting period, and its capacity to continue to provide services in future periods.

Service recipients and resource providers will also require information as input for making decisions. For example:

- Lenders, creditors, donors and others that provide resources on a voluntary basis, including in an exchange transaction, make decisions about whether to provide resources to support the current and future activities of the government or other public sector entity.
- Taxpayers do not usually provide funds to the government or other public sector entity on a voluntary basis or as a result of an exchange transaction. In addition, in many cases, they do not have the discretion to choose whether or not to accept the services provided by a public sector entity or to choose an alternative service provider. Consequently, they have little direct or immediate capacity to make decisions about whether to provide resources to the government, the resources to be allocated for the provision of services by a particular public sector entity or whether to purchase or consume the services provided. However, service recipients and resource providers can make decisions about their voting preferences, and representations they make to elected officials or other representative bodies,these decisions may have resource allocation consequences for certain public sector entities.

Information provided in GPFRs for accountability purposes will contribute to, and inform, decision making. For example, information about the costs, efficiency and effectiveness of past service delivery activities, the amount and sources of cost recovery, and the resources available to support future activities will be necessary for the discharge of accountability. This information will also be useful for decision making by users of GPFRs, including decisions that donors and other financial supporters make about providing resources to the entity.

Information Provided by General Purpose Financial Reports: Financial Position, Financial Performance, and Cash Flows

Information about the financial position of a government or other public sector entity will enable users to identify the resources of the entity and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:

- The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity;
- The extent to which resources are available to support future service delivery activities, and changes during the reporting period in the amount and composition of those resources and claims to those resources; and
- The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources.

Information about the financial performance of a government or other public sector entity will inform assessments of matters such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives. Information about the costs of service delivery and the amounts and sources of cost recovery during the reporting period will assist users to determine whether operating costs were recovered from, for example, taxes, user charges, contributions and transfers, or were financed by increasing the level of indebtedness of the entity.

Information about the cash flows of a government or other public sector entity contributes to assessments of financial performance and the entity's liquidity and solvency. It indicates how the entity raised and used cash during the period, including its borrowing and repayment of borrowing and its acquisition and sale of, for example, property, plant, and equipment. It also identifies the cash received from, for example, taxes and investments and the cash transfers made to, and received from, other governments, government agencies or international organizations. Information about cash flows can also support assessments of the entity's compliance with spending mandates expressed in cash flow terms, and inform assessments of the likely amounts and sources of cash inflows needed in future periods to support service delivery objectives.

Information about financial position, financial performance and cash flows are typically presented in financial statements. To assist users to better understand, interpret and place in context the information presented in the financial statements, GPFRs may also provide financial and non-financial information that enhances, complements and supplements the financial statements, including information about such matters as the government's or other public sector entity's:

- Compliance with approved budgets and other authority governing its operations;
- Service delivery activities and achievements during the reporting period; and
- Expectations regarding service delivery and other activities in future periods, and the long term consequences of decisions made and activities undertaken during the reporting period, including those that may impact expectations about the future.

This information may be presented in the notes to the financial statements or in separate reports included in GPFRs.

CHAPTER 3: QUALITATIVE CHARACTERISTICS

GPFRs present financial and non-financial information about economic and other phenomena. The qualitative characteristics of information included in GPFRs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. The objectives of financial reporting are to provide information useful for accountability and decision-making purposes.

- The qualitative characteristics of information included in GPFRs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.
- Pervasive constraints on information included in GPFRs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.

Relevance

Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.

Financial and non-financial information has confirmatory value if it confirms or changes past (or present) expectations. For example, information will be relevant for accountability and decision-making purposes if it confirms expectations about such matters as the extent to which managers have discharged their responsibilities for the efficient and effective use of resources, the achievement of specified service delivery objectives, and compliance with relevant budgetary, legislative and other requirements.

GPFRs may present information about an entity's anticipated future service delivery activities, objectives and costs, and the amount and sources of the resources that are intended to be allocated to providing services in the future. Such future oriented information will have predictive value and be relevant for accountability and decision-making purposes. Information about economic and other phenomena that exist or have already occurred can also have predictive value in helping form expectations about the future. For example, information that confirms or disproves past expectations can reinforce or change expectations about financial results and service delivery outcomes that may occur in the future.

Faithful Representation

To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance,which is not necessarily always the same as its legal form.

An omission of some information can cause the representation of an economic or other phenomenon to be false or misleading, and thus not useful to users of GPFRs. For example, a complete depiction of the item "plant and equipment" in GPFRs will include a numeric representation of the aggregate amount of plant and equipment together with other quantitative, descriptive and explanatory information necessary to faithfully represent that class of assets. In some cases, this may include the disclosure of information about such matters as the major classes of plant and equipment, factors that have affected their use in the past or might impact on their use in the future, and the basis and process for determining their numeric representation.

Neutrality in financial reporting is the absence of bias. It means that the selection and presentation of financial and non-financial information is not made with the intention of attaining a particular predetermined result,for example, to influence in a particular way users' assessment of the discharge of accountability by the entity or a decision or judgment that is to be made, or to induce particular behavior.

Understandability

Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. For example, explanations of financial and non-financial information and commentary on service delivery and other achievements during the reporting period and expectations for future periods should be written in plain language, and presented in a manner that is readily understandable by users. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability.

Users of GPFRs are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, to be able and prepared to read GPFRs, and to review and analyze the information presented with reasonable diligence. Some economic and other phenomena are particularly complex and difficult to represent in GPFRs, and some users may need to seek the aid of an advisor to assist in their understanding of them. All efforts should be undertaken to represent economic and other phenomena included in GPFRs in a manner that is understandable to a wide range of users. However, information should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.

Timeliness

Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.

Some items of information may continue to be useful long after the reporting period or reporting date. For example, for accountability and decision-making purposes, users of GPFRs may need to assess trends in the financial and service delivery performance of the entity and its compliance with budgets over a number of reporting periods. In addition, the outcome and effects of some service delivery programs may not be determinable until future periods,for example, this may occur in respect of programs intended to enhance the economic well-being of constituents, reduce the incidence of a particular disease, or increase literacy levels of certain age groups.

Comparability

Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.

Comparability differs from consistency. Consistency refers to the use of the same accounting principles or policies and basis of preparation, either from period to period within an entity or in a single period across more than one entity. Comparability is the goal, and consistency helps in achieving that goal. In some cases, the accounting principles or policies adopted by an entity may be revised to better represent a particular transaction or event in GPFRs. In these cases, the inclusion of additional disclosures or explanation may be necessary to satisfy the characteristics of comparability.

Comparability also differs from uniformity. For information to be comparable, like things must look alike and different things must look different. An over-emphasis on uniformity may reduce comparability by making unlike things look alike. Comparability of information in GPFRs is not enhanced by making unlike things look alike, any more than it is by making like things look different.

Information about the entity's financial position, financial performance, cash flows, compliance with approved budgets and relevant legislation or other authority governing the raising and use of resources, service delivery achievements, and its future plans is necessary for accountability purposes and useful as input for decision-making purposes. The usefulness of such information is enhanced if it can be compared with, for example:

- Prospective financial and non-financial information previously presented for that reporting period or reporting date;

- Similar information about the same entity for some other period or some other point in time; and
- Similar information about other entities (for example, public sector entities providing similar services in different jurisdictions) for the same reporting period.

Verifiability

Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent. Supportability is sometimes used to describe this quality when applied in respect of explanatory information and prospective financial and non-financial quantitative information disclosed in GPFRs,that is, the quality of information that helps assure users that explanatory or prospective financial and non-financial quantitative information faithfully represents the economic and other phenomena that it purports to represent.

Constraints on Information Included in General Purpose Financial Reports

Materiality

Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. GPFRs may encompass qualitative and quantitative information about service delivery achievements during the reporting period, and expectations about service delivery and financial outcomes in the future. Consequently, it is not possible to specify a uniform quantitative threshold at which a particular type of information becomes material.

Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the entity operates and, in respect of prospective financial and non-financial information, the preparer's knowledge and expectations about the future.

Cost-Benefit

Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/or quantify all the costs and all the benefits of information included in GPFRs.

The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. Users incur the costs of analysis and interpretation. Omission of useful information also imposes costs, including the costs that users incur to obtain needed information from other sources and the costs that result from making decisions using incomplete data provided by GPFRs.

Balance between the Qualitative Characteristics

The qualitative characteristics work together to contribute to the usefulness of information. For example, neither a depiction that faithfully represents an irrelevant phenomenon, nor a depiction that unfaithfully represents a relevant phenomenon, results in useful information. Similarly, to be relevant, information must be timely and understandable.

In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. The relative importance of the qualitative characteristics in each situation is a matter of professional judgment. The aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.

CHAPTER 4: REPORTING ENTITY

A public sector reporting entity is a government or other public sector organization, program or identifiable area of activity that prepares GPFRs. A public sector reporting entity may comprise two or more separate entities that present GPFRs as if they are a single entity—such a reporting entity is referred to as a group reporting entity.

Key Characteristics of a Reporting Entity

Key characteristics of a public sector reporting entity are that:

- It is an entity that raises resources from, or on behalf of, constituents and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents; and
- There are service recipients or resource providers, dependent on GPFRs of the entity for information for accountability or decision-making purposes.

A government may establish and/or operate through administrative units such as ministries or departments. It may also operate through trusts, statutory authorities, government corporations and other entities with a separate legal identity or operational autonomy to undertake or otherwise support the provision of services to constituents. Other public sector organizations, including international public sector organizations and municipal authorities, may also undertake certain activities through, and may benefit from and be exposed to a financial burden or loss as a result of, the activities of entities with a separate legal identity or operational autonomy.

To be continued..............

MANAGEMENT CONCEPTS: PORTERS DIAMOND

By Alhassan Trawule

The diamond model, also known as the Porter Diamond or the Porter Diamond Theory of National Advantage, describes a nation's competitive advantage in the international market. In this model, four attributes are taken into consideration: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry. According to Michael Porter, the model's creator, "These determinants create the national environment in which companies are born and learn how to compete."

Components

The four different components of the framework are:

Factor conditions (endowments)

Factor conditions include the nation's production resources, including infrastructure, labor force, land, and natural resources. According to Porter, "a nation does not inherit but instead creates the most important factors of production—such as skilled human resources or a scientific base." A lack of less important factors, such as an unskilled labor force or access to raw materials, can be mediated through technology or by implementing what Porter calls "a global strategy."

Factor endowment can be categorized into two forms:

-"Home-grown" resources/highly specialized resources

- Natural endowments

Related and supporting industries

This component refers to industries that supply, distribute, or are otherwise related to the industry being examined. For many firms, the presence of related and supporting industries is of critical importance to the growth of that particular industry. A critical concept here is that national competitive strengths tend to be associated with "clusters" of industries.

For example, Silicon Valley in the US and Silicon Glen in the UK are techno clusters of high-technology industries which includes individual computer software and semi-conductor firms.

Demand conditions

Demand conditions in the domestic market provide the primary driver of growth, innovation and quality improvement. The premise is that a strong domestic market stimulates the firm from being a startup to a slightly expanded and bigger organization. As an illustration, we can take the case of Germany which has some of the world's premier automobile companies like Mercedes, BMW, Porsche. German auto companies have dominated the world when it comes to the high-performance segment of the world automobile industry. However, their position in the market of cheaper, mass-produced autos is much weaker.

This can be linked to a domestic market which has traditionally demanded a high level of engineering performance. Also, the transport infrastructure of Germany, with its Autobahns does tend to favor high-performance automobiles.

Strategy, structure and rivalry

National performance in particular sectors is inevitably related to the strategies and the structure of the firms in that sector. Competition plays a big role in driving innovation and the subsequent upgradation of competitive advantage. Since domestic competition is more direct and impacts earlier than steps taken by foreign competitors, the stimulus provided by them is higher in terms of innovation and efficiency.

Other factors

Porter identifies two other variables that affect competitiveness. These factors "support and complement the system of national competitiveness but do not create lasting competitive advantages."

The role of government

The role of government in Porter's Diamond Model is "acting as a catalyst and challenger; it is to encourage - or even push - companies to raise their aspirations and move to higher levels of competitive performance …". They must encourage companies to raise their performance, stimulate early demand for advanced products, focus on specialized factor creation and to stimulate local rivalry by limiting direct cooperation and enforcing anti-trust regulations.

Chance

The role of chance basically denotes the idea that it may occur that many times a product or an enterprise may get an opportunity to maximize its benefits out of sheer luck. Thus chance plays a key role in determining the fate of the product as well.

GHANA'S TAX MEASURES IN RESPONSE TO COVID-19

By Alhassan Trawule

On 1 May 2020, the Parliament of Ghana passed the Income Tax (Amendment) Bill, 2020 to exempt from income tax, certain withdrawals from the statutory voluntary pension scheme. On that same day, Parliament designated donations of goods to the COVID-19 fight as emergency relief items for VAT purposes and granted powers to the Finance Minister, Mr. Ken Ofori-Atta, to waive taxes on the employment income of health workers.

Prior to this, on 27 April 2020, the Ghana Revenue Authority (GRA) issued a public notice to outline new measures introduced in response to the pandemic. In this article, we will elaborate on the tax measures approved by Parliament and announced by the GRA, which aim at mitigating the impact of COVID-19.

Income tax specific measures:

The approved income tax measures are explained as follows:

• Withdrawals of non-qualifying accrued benefits under a third-tier (statutory pension/provident fund) scheme usually attract income tax at 15%. Income tax will be waived for withdrawals made by employees who have lost their permanent employment and self-employed persons who have lost their business capital;

• Health workers are subject to the income tax regime in Ghana. However, to provide compensation for additional risks, the employment income of health workers for the months of April to June 2020 is exempt from income tax;

• Generally, donations made by a taxpayer will not qualify as deductions against income when determining how much of the taxpayer's income should be taxed.

However, all COVID-19 donations will be considered as deductible expenses for income tax purposes and so will reduce the amount of income used to determine the taxpayer's income tax liability; and

• The deadline for filing annual income tax returns has been extended by two months. As a result, 30 June 2020 (and not 30 April 2020) will be the new filing deadline for the 2019 income tax returns for individuals and partnerships and the 2019 Annual P.A.Y.E. Deductions Return filed by employers.

Companies and trusts have six (instead of four) months after the end of their financial year to file their income tax returns.

Value Added Tax (VAT) specific measures:

The VAT measure is explained below:

• Under normal circumstances, supplies of goods made by VAT-registered businesses are subject to the imposition of VAT and allied levies (together referred to as VAT). Donations of goods for charitable purposes may trigger VAT liability for the donor. However, no VAT should be effectively charged by a donor and paid on goods contributed in support of efforts against COVID-19. This is because Parliament has approved such taxable donations as emergency relief items under the VAT laws.

General tax measures

For the administration of taxes in general, the following measures have been introduced:

• Penalties on principal debts will be cancelled upon payment of outstanding debts due to the GRA up to 30 June 2020; and

• The GRA has disseminated information to aid the payment of taxes by bank transfer and the filing of returns by email.

Other compliance measures:

In related news, the Registrar-General's Department has extended the deadline for filing annual company returns. Companies with year-ends up to 31 December 2019 will have until 30 June 2020 to file their returns. Companies with 2020 year-ends up to 30 June 2020 should submit their returns by 31 December 2020.

WAIVER OF PENALTIES TO TAXPAYERS AS A RESULT OF COVID-19 PANDEMIC

Persons who settle all outstanding tax liabilities on or before 30th June 2020 shall be eligible for a remission of penalties as part of incentives towards the COVID-19 Pandemic.

Source: https://www.pwc.com/gh/en/assets/pdf/pwc-ghana-covid-19-tax-measures.pdf. Retrieved on 27/07/2020

AUDITTING CONCEPT: INTERNAL CONTROLS

By Alhassan Trawule

The Institute of Internal Auditors (IIA) Standards define internal control as "any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved." Basically, internal control systems are the laws, policies, and procedures that affect the daily operations and management of an organisation. Internal controls are policies and procedures put in place to ensure the continued reliability of accounting systems.

COMPONENTS OF INTERNAL CONTROL

According to the COSO Framework, internal control consists of five interrelated components. These are derived from the way management runs a business, and are integrated with the management process. The components are:

1. Control Environment

The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. The board of directors and senior management set the tone for the organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

The control environment comprises the integrity and ethical values of the organization; the parameters enabling the board of directors to carry out its governance oversight responsibilities; the organizational structure and assignment of authority and responsibility; the process for attracting, developing, and retaining competent individuals; and the rigor around performance measures, incentives, and rewards to drive accountability for performance. The resulting control environment has a pervasive impact on the overall system of internal control.

2. Risk Assessment

Every entity faces a variety of risks from external and internal sources that must be assessed. Risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives. Risks to the achievement of these objectives from across the entity are considered relative to established risk tolerances. Thus, risk assessment forms the basis for determining how risks will be managed.

3. Control Activities

Control activities are the actions established through policies and procedures that help ensure management directives to mitigate risks to the achievement of objectives are carried out. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

4. Information and Communication

Information is necessary for the entity to carry out internal control responsibilities to support the achievement of its objectives. Management obtains or generates and uses relevant and quality information from both internal and external sources to support the functioning of other components of internal control. Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the business.

Effective communication also must occur in a broader sense, flowing down, across and up the organization. Communication is the continual, iterative process of providing, sharing, and obtaining necessary information. Internal communication is the means by which information is disseminated throughout the organization, flowing up, down, and across the entity. It enables personnel to receive a clear message from senior management that control responsibilities must be taken seriously.

External communication is twofold: it enables inbound communication of relevant external information, and it provides information to external parties in response to requirements and expectations.

5. Monitoring Activities

Internal control systems need to be monitored - a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. They are used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, is present and functioning.

It includes regular management and supervisory activities, and other actions personnel take in performing their duties. Ongoing evaluations, built into business processes at different levels of the entity, provide timely information. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board.

PAST QUESTIONS

NOVEMBER 2019 PROFESSIONAL EXAMINATION
PRINCIPLES OF TAXATION (PAPER 2.6)
CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME
EXAMINER'S GENERAL COMMENTS

The performance of the students in this paper was very good as more than 40% of the students who wrote the paper passed. There were clear general understanding of the questions and more importantly, the questions included instructions to students that were specific and clear. Most of the Students performed excellently probably because the instructions and requirements in the questions were clear enough. Fortunately, this is the first diet for the paper and students would have the opportunity to make amends by learning the rudiments of the paper. Students are advised, however, to cultivate the habit of reading generally on taxation and listen more to or read from experts on taxation. This is so because the Principles of Taxation is built on general knowledge on how the law works and more importantly how the law is explained and applied.

STANDARD OF THE PAPER

The questions were excellent for part two. All the questions did reflect the Principles of Taxation syllabus of which the students were expected to have a fair knowledge to pass. The questions fairly covered the entire syllabus and the expectations were that any average student who wrote the paper should pass.

Question one assessed the students on Fiscal Policy and Tax Administration. Students were examined on topics such as: purposes of taxation in an economy, application of taxation as a fiscal tool, and tax assessment. These questions were familiar to students because Fiscal Policy and Tax Administration are explicitly stated in the Principles of Taxation syllabus. The marks allocated were also fair for the efforts needed to answer the question.

Question two had two parts: first part on Value Added Tax. The question on the first part had instructions that were clear to students and this showed in their solutions as those students had prepared were able to answer very well. The marks students scored were however, very low. The question on the withholding taxes was however, a bit ambiguous but the instructions were certain on what students were to do. Most of the Students did so well with the second part of the question.

Question three sought to test students understanding on Taxation of Individuals, including the self-employed. Questions were set on computation of Overtime allowance, chargeable income of non-residents and vehicle income stickers. The details given to the students were very clear and any average students should be in the position to provide good answers to the questions. The marks were fairly allocated to the questions.

Question four examined three issues: examination of company accounts for taxation, differences between domestic expenditures and excluded expenditures, and rules governing research and development expenses. Students are expected to have a fair idea imposition of taxation of which these topics could be extracted from. So, the question was a fair one. Most students could not provide excellent answers and thus only earned average marks. The instructions to the students were so clear but the students could not find the best way to present the solution. Most students ended up scoring low marks as a result of poor presentation of the solution. Majority of the students had no idea of the differences between domestic expenditure and excluded expenditure.

Question five was made up of three parts: capital gains and its taxation, gifts and its taxation, and the Ghana National Pension Scheme. The last part of the question was a problem to students because the instructions were not clear. This part of the question seems not to have anything to do with taxation but it is clearly stated in the syllabus for students to know.

PERFORMANCE OF CANDIDATES

Generally, the performance of the students was very good and the expectation of the Examiner from the students was met. Any student who could not pass cannot blame anyone but himself or herself for lack of preparation and understanding of the syllabus. More than 40 percent of the students passed the paper and this is a good sign of how students prepared.

The reasons could be as follows:

- It is strongly believed that the students did well because the instructions in most of the questions were clear and thus unambiguous.
- Students do not have much problems stating the principles in taxation. It is expected that this trend will continue.
- There is evidence that the students are having better tuition. However, some of the students did not show any evidence of good understanding of the basics of taxation.
- Those students who did not perform well do not understand taxation activities so well. This area of taxation was examined prominently and it seems most of the students have little knowledge on these issues.

NOTABLE STRENGTHS & WEAKNESS OF CANDIDATES

It is evident that most of the students had excellent understanding of the syllabus and the subject. This was demonstrated in the answering of the questions.

It is also clear that most of the students received very good tuition on the subject. Most of the answers provided were very good.

Those who passed really deserve it because it was clear that they had prepared as some of the students were getting marks above 60%. This is clear that students prepared well and understood the questions. The manner most of the students presented their answers was very good. This makes marking and scoring not so difficult.

Most of the students had excellent handwriting. This makes marking easy and facilitates understanding of students. Where there are plenty scripts to mark and the handwritings are not good it can be frustrating to script markers.

The understanding of the topics in the syllabus was good. Most of the students had an excellent understanding of the topics in the syllabus. Even those who could not pass, had fairly good marks, ranging between 40%-45%

It seems some of the students did not pay attention to certain topics. Probably, thinking those topics were not so important. Such topics are: Ghana National Pension Scheme, Fiscal Policy, Tax Administration, and Value-Added Taxation. If students had given more attention to these topics, the pass rate would have been more than 50%

Students are advised to give equal attention to the topics since subsequent examinations will be based on all the topics in the syllabus and not only part of the syllabus. This is a new subject in the ICAG scheme and students are expected to learn everything and not to pick and choose what they want to learn. Tuition providers should also pay equal attention to all the topics and not to ignore some considered to be minor and unimportant.

QUESTION ONE

a) Economists are unanimous on the view that taxation is an essential tool for mobilising resources for economic development and in particular for a middle-income country such as Ghana.

Required:

i) Describe briefly FIVE (5) purposes of taxation for an economy such as Ghana. (5 marks)

ii) Explain the use and application of taxation as a tool of fiscal policy to stabilise the economy. (5 marks)

b) The only tool for communicating a tax liability to a tax payer is through a notice of assessment.

Required:

What are the elements of a notice of tax assessment? (8 marks)

c) The following data is relevant to Naab Ltd tax affairs for 2018 year of assessment:

Self –assessment returns submitted:	
Tax paid on self-assessment	GH¢ 1,000,000
Chargeable income	GH¢ 4,000,000
Actual Returns submitted:	
Chargeable Income	GH¢ 6,000,000
Correct amount-Tax payable	GH¢ 1,500,000

Required:

What is the amount of tax underpayment to be subject to interest computation? (2 marks)

(Total: 20 marks)

QUESTION TWO

a) Percy Cool (Percy) supplied goods to Perry Hot (Perry), both are VAT registered traders. Percy issued VAT invoice accordingly on 15 February, 2019. On 20 February, 2019 Percy received a call from Perry indicating that he has lost the VAT invoice issued to him.

Required:

What should Percy do? (3 marks)

b) Akorfa Vinyo, an equipment hiring company, raises an invoice in the sum of GH¢500,000.00 in respect of hiring of equipment services to a withholding VAT agent (Sir James Enterprise). This supply excludes Value Added Tax (VAT of 12.5%), National Health Insurance Levy (NHIL of 2.5%), and Ghana Education Trust Fund Levy (GETFL of 2.5%). Assume that this is the only supply of value-added activity done by Akorfa Vinyo in the period and payments are made in the same period.

Required:

i) Calculate the proportion of VAT that should be withheld by the agent in respect of payment of the invoice (the withholding VAT rate is 7%) (3 marks)

ii) Calculate the output VAT to be shown on the face of Akorfa's monthly VAT Return. (3 marks)

iii) Calculate the VAT payable by Akorfa, if the total input VAT incurred for the period is GH¢25,000. (3 marks)

iv) Show the Payment details by the Withholding Agent for the Supply. (3 marks)

c) Below are the various contracts awarded to KPP Books and Stationery limited by the Ghana Water Company for the 2018 year of assessment:

i) 1st contract was for the supply of stationery costing GH¢1,000 in January 2018.
ii) 2nd contract was for the supply of Station Diaries costing GH¢900 on March 2018.
iii) 3rd contract for the supply of additional stationery costing GH¢900 on August 16 2018.

Required:
What amount of withholding tax is due to Ghana Revenue Authority in the year 2018 from Ghana Water Company? (5 marks)

(Total: 20 marks)

QUESTION THREE

a) King Peter is a Junior Staff member of Sir James Company Limited. His monthly basic salary is GH¢700.00. He was paid an overtime totaling GH¢50.00 during the month of January, 2019.

Required:
i) Compute his tax liability on overtime for the month of January, 2019. (2 marks)
ii) In the month of February, 2019, King Peter was paid overtime totaling GH¢500.00. Compute his tax liability on the overtime payments for the month of February, 2019. (3 marks)

b) Amos is a Senior Staff member of Sims Company Limited. His monthly basic salary is GH¢1,490.00. He was paid an overtime totalling GH¢650.00 during the month of January, 2019.

Required:
What is the tax implication? (3 marks)

c) Lord Pakro was seconded to Ghana from the Crops Scientists Institute in USA as a Crop Scientist to Crop Research Institute in Ghana, for a period of 5 months, starting from 1 August, 2018. He was based at Nyankpala (Northern part of Ghana), one of the farming sites of the Crop Research Institute.

His conditions of service were as follows:	GH¢
Salary	6,000 per month
Expatriate allowance	2,000 per month
Risk allowance	1,000 per month

He was provided with a furnished bungalow and a Toyota Pick-up vehicle with driver and fuel for both official and private activities. In addition to the above, the parent company agreed to meet his commitment at home during his six months stay in Ghana at $1,200 per month. The average exchange rate has been $1=GH¢5.00

Required:
Determine Lord Pakro's chargeable income and tax liability, if any, during his stay in the country. Produce the related notes guiding your determination. (6 marks)

d) In 2003, the Vehicle Income Tax Stickers (VITS) was introduced by way of LI 1727 and amended by Income Tax Regulations, 2016 (LI 2244).

Required:
Identify the key features of VITS tax system. (6 marks)

(Total: 20 marks)

QUESTION FOUR

a) Valentine Ghana Limited is a producer of love greeting cards and the following was extracted from its financial statements for the year ended 31 December, 2018.

GH¢ GH¢

Turnover	7,140,000	
Opening Stocks	680,850	
Purchases	4,828,000	
Carriage Inwards	93,840	
5,602,690		
Less Closing Stocks	(601,120)	
Cost of Sales	(5,001,570)	
Gross Profit	2,138,430	
Other Income	156,400	
Deduct:	2,294,830	
Operating Expenses:		
Taxes Paid- 2017		
Electricity Bills Paid	289,000	
51,000		
Wages & Salaries	255,510	
Rent & Rates	170,000	
Travelling Expenses	144,330	
Office Expenses	68,760	
Vehicle Running Expenses	174,930	
Depreciation	149,940	
Penalty for Late Filing of Statutory Returns	61,880	
Provision for Doubtful Debts General	154,020	
Stationery	70,905	
Medical Expenses	31,025	
Cost of Servicing	121,550	
Sundries	95,030	
Audit Fees	51,000	
Communication Expenses	59,840	
		(1,948,720)
Net Profit		346,110

The following additional information are relevant:

i) Capital allowances for the year was GH¢204,000 as agreed with Ghana Revenue Authority (GRA).

ii) The figures for repairs and maintenance include an amount of GH¢33,150 being cost of erecting a new gate to the factory.

iii) 50% of other income was the personal rental income of the Managing Director.

iv) One third of vehicle running expenses was expended on the personal car of the Managing Director, used for the company's operation based on the company's policy.

Required:

Calculate the chargeable income of Valentine Ghana Limited for 2018 Year of Assessment. (8 marks)

b) 'No deductions are allowed for domestic or excluded expenditure incurred by a person in the computation of assessable income'.

Required:

i) Identify FOUR (4) items that constitute domestic expenditure. (4 marks)

ii) Identify FOUR (4) items that constitute excluded expenditure. (4 marks)

c) Explain briefly the taxation rules governing research and development expenses. (4 marks) (Total: 20 marks)

QUESTION FIVE

a) Mamavi Dekey (Mamavi) purchased a land in Ho in the Volta Region for a cost of GH¢200,000 in the year 2010. In 2011 she spent GH¢8,000 for grading the land. In March, 2019 she spent another GH¢10,000 to reshape the land with the intention to sell it. Mamavi engaged Kobina Ebo, a Valuer, in June, 2019 to value the land and he charged GH¢2,000. In July, 2019, she placed an advert at 'Ho Bankoe FM' on the sale of the land and paid GH¢1,000. In October, 2019 she sold the land through an agent for GH¢300,000 to Kalika and the agent commission was 2% of the sale value. Mamavi also paid GH¢600 for stamp duty and legal permit for conveyance of the land to Kalika.

Required:

Compute any tax payable. (5 marks)

b) An individual may realise an asset on the death of another person, by way of transfer of ownership of the asset. What are the taxation rules on such transaction? (5 marks)

c) Madam Okailey Armah, a prominent market queen and Philanthropist, was nominated Asafouakye of Namoale Traditional Area in Accra in January 2018. At her out-dooring in August 2018 as Naa Okailey Tsofatse II, she sat in state and received homage and gifts from her people, friends and business associates. The following were the quantifiable gifts she received.

	GH¢
Market Queens Association	1,000
Commercial Bank (Pick-Up)	5,000
Namoale Traditional Council	500
Father-in-Law	500
Anonymous admirer	1,000

A week after her out-dooring, she made the following donations:

Osu Children's Home	Pick-Up Vehicle
	GH¢
Children's Hospital (Accra)	1,000
Weija Leprosarium	500
Children's Ward Korle Bu (Assorted Biscuits)	200
Thanksgiving Offering (Freeman Memorial Church, Bukom)	200

Required:

Determine any tax payable and briefly comment on the relevant tax implications. (5 marks)

d) Explain briefly the 3-Tier Ghana National Pension Scheme Mechanism. (5 marks)

(Total: 20 marks)

The Tax Rates- (ANNUAL 2018)

	Chargeable Income GH¢	Rate
First	3,132	Nil
Next	840	5%
Next	1,200	10%
Next	33,720	17.5%
Next	81,108	25%
Exceeding	120,000	35%

SOLUTION TO QUESTIONS

QUESTION ONE

(a)(i)

The following are the main purposes or objectives of taxation in a developing economy

1. Mobilisation of Resources

The first and the foremost objective of taxation in a developing economy should be to maximise the level of aggregate saving by applying a cut to the actual and potential consumption of the public at large. It then becomes necessary to collect more revenues mainly in the form of taxes, a major part of which will have to come from the rich, who constitute as small section of the society, mainly in the form of direct taxes

2. Taxation as an Instrument of Economic Stability

The under-developed countries are very susceptible to three sources of instability which results from the nature of their economy and the logic of accelerated economic development.

a. Instability caused by world market developments;
b. Instability due to cyclical deficiency of effective demand in the short run, and
c. Instability caused by inflationary pressures

3. The Re-allocative Role of Taxation

The tax system in order to ensure effective allocation of resources should interfere as little as possible with the consumers' choices for consumption goods and the producers' choices regarding the use of factors of production. The owners of factors of production should be enabled to seek their most remunerative employment and the price mechanism should be allowed to operate freely so that there is optimum output of goods. Under this condition, it is essential that the tax system should be economically neutral and framed in such a way as to ensure the optimal allocation and utilisation of the productive resources of the economy.

4. The Re-distributive Objective of Taxation.

The under-developed countries are characterised by the existence of extreme inequalities in the distribution of income and wealth and a large proportion of saving of the upper income groups is misdirected. Besides, in some of the under-developed countries, the consumption propensities of the upper income groups are higher than those of the upper income groups of the developed countries. Thus, there exists a large volume of avoidable inequality in the economy of the under-developed countries. Therefore, a good re¬distribution objective of the-tax system in a developing country should be an instrument for the reduction of economic inequalities by redistributing the income through bridging the gap between the rich and the poor. The very purpose of taxation is not merely to raise revenues for the state but the revenues should be raised in such a manner as to ensure that the burden of tax should fall on the rich in the form of wealth-tax, income-tax, etc. and the proceeds, if possible, should be spent for the benefit of the poor.

5. Growth Objective of Taxation

The Government, in any economy, attempts to use taxation to achieve many goals, and mobilisation of resources for the government in a less-developed country is one of them. To see that taxes are paid and collected, a tax system has to have a proper administrative set up. In addition, the taxes should be equitable. From the point of view of the growth of the economy, its industries, trade, agriculture, consumption, etc., the tax policy has to be such that it does not upset the pattern of production, trade, consumption, savings, and investment in the economy.

(5 points well explained for 5 marks)

(a)(ii)Taxation as an Instrument of Economic Stability

The under-developed countries are very susceptible to three sources of instability which results from the nature of their economy and the logic of accelerated economic development.

a) Instability caused by world market developments;
b) Instability due to cyclical deficiency of effective demand in the short run, and
c) Instability caused by inflationary pressures

- The under-developed countries are more vulnerable to the effects of international cyclical fluctuations due to an unbalanced nature of their economic structure and heavy reliance on the export of primary products, as a source of their national income. This means any fluctuations in the international demand for their products, therefore, will tend to exercise a predominant effect on their national income through the medium of the foreign trade multiplier. Equally, as the under-developed countries export primarily raw materials, they import the finished manufactured goods from the developed countries and in the event of an international recession, the under-developed countries exporting primary products find that the resources in agriculture and some other primary industries are immobile in the short run and often continue to produce the same type and even quantities of output as before. But as the demand for these products are inelastic, it leads to a fall in the prices of these products in the international market leading to reduced export earnings which may affect the process of economic development in these countries adversely, as their own consumption requirements is very small due to their subsistence living.
- Specific fiscal instruments like export taxes are more useful as stabilisation measures than aggregative fiscal instruments such as a general sales-tax and income-taxation. These specific tax measures are more flexible in adjustment than income-tax and can also single out the export sector of the economy and counteract the destabilising influences that arise from it. Besides, they are relatively simple to administer and difficult to evade. But the contribution of export taxes to internal economic stability, and thus, economic development can be of great significance only if the under-developed countries are able to resist a high propensity to import consumer goods, especially luxuries and have the necessary skill not only in the manipulation of export and import taxes but also in timing the changes and channelling the proceeds for promoting their economic development.
- The stabilisation objectives of taxation should also aim at maximising the level of aggregate saving by applying a cut to the actual and potential consumption of the public at large. This stabilisation objective should aim at curbing the conspicuous consumption of the rich and force them to save for capital formation, which if maximised, should break economic stagnation and lead the country on the path of rapid economic growth.
- Another objective of the stabilisation policy of taxation should aim at protecting the economy of an under-developed country from the evils of inflation and depression as the under-developed countries have unusual susceptibility to inflationary pressures. Stagnation is regarded as too heavy and unacceptable a price to pay for achieving stability in prices. At the same time, large scale inflation as a means of promoting the economic development of the under-developed countries is beset with so many evils. Thus, the taxation policy for a developing economy should aim at curbing inflationary pressures inherent in a developing economy as in such an economy, there is always an imbalance between the demand for and supply of real resources.
- Equally, during depression, taxation along with other fiscal policy must operate in coordination with each other to offset it. Thus, taxation policy along with other fiscal policy measures are ideally suited to check inflation and depression in a developing economy. Taxation will be reduced in deflationary situation while during inflationary situation,

taxation will be increased. If inflation is not controlled in time, it can undermine the very process of economic growth and development. As such, a suitable taxation policy for an under-developed country should be designed as to curb the demon of inflationary and deflationary situations which can prove ruinous to an under¬developed economy.

(5 points well explained for 5 marks)

(b)Notice of assessment

Where the Commissioner-General makes an assessment, the Commissioner-General is required to serve a written notice of the assessment on the taxpayer. In addition to any requirement of the tax law in question, the notice of assessment should contain:

- The name of the taxpayer
- The Taxpayer Identification Number of the taxpayer
- The assessment by the Commissioner-General of the tax payable by the taxpayer for the period, event or matter to which the assessment relates
- The amount of tax remaining to be paid after any relevant credits, reductions or pre-payments
- the manner in which the assessment is calculated
- The reason why the Commissioner-General has made the assessment
- The date by which the tax is to be paid; and
- The time, place and manner of objecting to the assessment.

(8 points for 8 marks)

(c) Computation of underpayment to be subjected to interest computation

Correct amount	1,500,000	
90% of correct amount	1,350,000	
Less tax paid on self-assessment	1,000,000	
Difference	350,000	
Therefore, underpayment subject to tax is	350,000	(2 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

- Most of the students could not calculate the underpayment of taxes under the self-assessment. Tuition centres should pay attention to this area as most students still find it difficult to understand the principles on the self-assessment and the interest computation.
- Few students could not identify the objectives or purposes of taxation. However, most of the students were able to answer this excellently
- Taxation has been used over the years as a tool to stabilise the economy. It is unfortunate that only some few students were able to answer this part of the question fairly.

QUESTION TWO

a) Where, within thirty calendar days after the date of a supply, a recipient who is a taxable person claims to have lost the original tax invoice for a taxable supply, the taxable person making the supply is required to, on receipt of a request in writing from the recipient, provide a certified copy clearly marked "copy" to the recipient within fourteen calendar days of receipt after the request. (3 marks)

b) Workings

GH¢	GH¢	
Taxable Value excluding VAT/NHIL/GETFL		500,000.00
Add: NHIL 2.5% x GH¢500,000		12,500.00
GETFL 2.5% x GH¢500,000		12,500.00

	25,000.00	
Gross Amount exclusive of VAT	525,000.00	

i) Proportion of VAT that should be withheld by the agent: 7% x GH¢525,000.00
= GH¢36,750.00 (3 marks)

ii) Calculation of the output VAT = 12.5% X 525,000 = 65,625.00 (3 marks)

iii) Calculate the VAT payable by Akorfa

Output VAT	65,625.00	
Less: Input VAT:		
VAT incurred (@ 12.5%	25,000.00	
VAT withheld by the agent	36,750.00	
Total Deductible input	61,750.00	
VAT payable by Akorfa	3,875.00	(3 marks)

iv) Payment details by the Withholding Agent

		GH¢	GH¢
Amount exclusive of VAT/NHIL/GETFL chargeable		500,000.00	
Add: NHIL & GETFL	(500,000 x 5%)	25,000.00	
			525,000.00
VAT	(525,000 x 12.5%)		65,625.00
Amount inclusive of VAT/NHIL/GETFL			590,625.00
Less: VAT withheld by the agent (7% of 525,000.00)			36,750.00
Service withholding tax	(7.5% of 500,000.00)		37,500.00
Total Withholding Taxes (payable to GRA)			74,250.00
Net amount payable to Akorfa		516,375.00	
		(3 marks)	

(c)

i) The 1st Contract Sum of GH¢1,000 does not meet the threshold amount of GH¢2,000 so there will be no tax withheld on the amount. (1 mark)

ii) The 2nd Contract Sum of GH¢900 does not meet the threshold of GH¢2,000. Furthermore, the aggregate value of the 1st and 2nd contracts (GH¢1,000 + GH¢900 = GH¢1,900) also does not meet the threshold of GH¢2,000 hence no withholding tax will be charged on payment of the 2nd contract. (1.5 marks)

iii) The 3rd Contract Sum of GH¢900 does not meet the threshold of GH¢2,000. However, the aggregate value of the 1st, 2nd and 3rd contracts (GH¢1,000 + GH¢900 + GH¢900 = GH¢2,800) exceeds the threshold of GH¢2,000 hence the cumulative amount of GH¢2,800 will be subject to withholding tax at the applicable rate.
(1.5 marks)

Tax withheld is 3% x GH¢2,800 = GH¢84.00 (1 mark)

NB: A student would be correct it he or she states that, at the start of the year, the company anticipates that purchases from the vendor will exceed the threshold of GH¢2,000. In this case, the first, second and third purchases will all the taxed at 3% and the same tax liability will result. (Total: 20 marks)

EXAMINER'S COMMENTS

- Most students were able to identify that the National Insurance and Education fund are levies and computed that very well. The students who were able to compute the levy appropriately added to the cost of the item.

- Almost all the students could not realise that the item dealt in was a service and the transaction should suffer service withholding tax of 7.5%. This was to be expressed on the cost of the item and treated as part of the payment made upfront by the dealer.
- Most of the students were able to identify that the current VAT rate is 12.5%. Some students calculated 17.5% as VAT which is wrong.
- It is worrying that only about 5% of the students could answer the question on the 'lost VAT receipt'. The advice is that students should pay attention to details since the paper is examining students on principles of taxation

QUESTION THREE

a)

i) Percentage of overtime to basic salary: GH¢50/GH¢700 x 100% = 7.14%

This does not exceed 50% of basic salary. Tax payable is thus 5% of the overtime amount

Tax payable = 5% x GH¢50.00 = GH¢2.5 (2 marks)

ii) Percentage of overtime to basic salary: GH¢500/GH¢700 x 100% = 71.43%

This exceeds 50% of basic salary. Tax payable will be as follows:

50% x GH¢700.00 = GH¢350 x 5%	17.50
Excess 700-350 = GH¢150 x 10%	15.00
	32.50 (3 marks to be allocated)

b) Amos is a senior staff member, and therefore, irrespective of the salary paid him (i.e. GH¢1,490), which is less than GH¢1,500, all of the overtime payment shall be considered as part of the chargeable income and taxed using the graduated rates (3 marks)

c)

KING PERRY

COMPUTATION OF CHARGEABLE INCOME FOR THE ASSESSMENT YEAR 2019

	GH¢	GH¢	GH¢
Basic Salary 6,000 x 5 months			30,000
Add Benefits in Cash:			
Expatriate allowance	2,000 x 5	10,000	
Risk allowance	1,000 x 5	5,000	
Other commitments	$1,200 x GH¢5 x 5	30,000	45,000
Total Cash Emoluments			75,000
Add Non-Cash Benefits:			
Driver, Vehicle and Fuel 12.5 x 75,000		9,375	
Restricted	GH¢600 x 5	3,000	3,000
Chargeable Income			78,000

Tax Payable25% x GH¢78,000 = GH¢19,500 (6 marks evenly spread using ticks)

d) Key Issues of The LI 1727

- VIT Stickers are mandatory for all commercial road vehicles
- Stickers are to be purchased every quarter in advance and shall be valid only for that quarter
- Stickers are to be displayed on the windscreens of all commercial vehicles as done with Insurance and Road Worthiness Certificates.
- The VIT Sticker system shall be enforced by the Police Service and monitored by Ghana Revenue Authority.

- Taxpayers are required to file their tax returns at the end of each year since the payment for the VIT stickers are only payment on account.
- Stickers can be purchased by a Transport Association for its members.
- Specified rates are provided for various classes of commercial vehicles.

(One point for one mark. Maximum of 6 points= 6 marks) (Total: 20 marks)

EXAMINER'S COMMENTS

- This was the best answered question. Almost all the students were able to identify the overtime principles and computed the figures correctly
- Most of the students were able to identify that Lord Pakro was a non-resident person for taxation purposes. Almost all the students used 20% rate instead of 25%.
- The tuition centres and students should pay attention to details. This is largely a law paper and it is expected that students go by the law exactly.

QUESTION FOUR

a)

Valentine Ghana Limited

Computation of Chargeable Income for 2018 Tax Year

	GH¢	GH¢
Net profit as per Account		346,110
Adjustments:		
Provision for doubtful Debts – General	154,020	
Penalty for late filing of statutory returns	61,880	
Depreciation	149, 940	
Taxes paid- 2017	289,000	
Cost of erecting new gate	33,150	
Capital Allowance	(204,000)	
Other Income 50% x 156,400	(78,200)	
		405,790
Chargeable Income	751,900	

(8 marks to be allocated using ticks)

b)

i) Domestic Expenditure

The Act 896 stipulates that where an individual incurs expenditure in respect of herself or himself, the expenditure is said to be domestic expenditure if it is incurred:

- In maintaining the individual, including in providing shelter as well as meals, refreshment, entertainment or other leisure activities.
- In the individual commuting from home to work.
- In acquiring clothing for the individual. This does not include clothing that is not suitable for wearing outside of work.
- In educating the individual. Any education that is directly relevant to a business conducted by the individual. Any education that leads to a degree or diploma is not allowed.
- Interest on money borrowed to do any of (1) to (4) above

(One point for one mark. Maximum of four marks= 4 marks)

ii) Excluded expenditure means

The Act 896 provides that the following expenses are 'excluded expenditure' and therefore, not allowed against a person's income:

- Tax paid or payable under the Act 896 and any other tax law.
- Bribes and expenditure incurred in corrupt practices
- Interest, penalties and fines paid or payable to a government or a political subdivision of a government of any country for breach of any law or subsidiary legislation
- Expenditure to the extent incurred by a person in deriving exempt amounts or final withholding payments;
- Retirement contributions, unless they are included in calculating the income of an employee
- Dividends of a company
- The depreciation of any fixed asset
- Provisions (e.g. provision for doubtful debts, provision for warranty, provision for reconstructions etc.)

(One point for one mark. Maximum of four marks= 4 marks)

c) Research and Development Expenses

Research and development expenses meeting the requirements of wholly, exclusively and necessarily incurred during the year by the person and in the production of income from the business or investment may be deducted irrespective of whether they are of a capital nature.

Research and development expenses means expenses incurred by the person in the process of developing the person's business and improving business products or process. Research and development expenses excludes expenses incurred that are otherwise included in the cost of an asset used in the process of the research and development. (4 marks) (Total: 20 marks)

EXAMINER'S COMMENTS

- Students were able to score high marks for the part (a) of the question on the examination of accounts. The question examined basic principles on the examination of accounts and students performed creditably well
- The arrangements for the allowable and non-allowable items were a problem for some students. Tuition centres should pay attention to the format for the presentation of examination of account for taxation purposes
- Majority of the students were able to list the domestic and excluded expenses. Those who could not identify the domestic and excluded expenses were clearly not prepared for the exams
- Some of the students could not clearly expect the tax implication of research and development

QUESTION FIVE

a)

	GH¢	GH¢
Consideration Received		300,000
Cost of Asset:		
Original Cost of asset	200,000	
Grading of the land	8,000	
Reshaping of the land	10,000	
Valuation of the land	2,000	
Advertisement for sale of land	1,000	
Agent fee 2% x 300,000	6,000	
Conveyance fee	600	
	227,600	
Gains from realisation	72,400	

Tax Payable = 15% x GH¢72,400 = GH¢10,860 (5 marks to be allocated)

b) Where an individual realises an asset on death, by way of transfer of ownership of the asset to another person:

- That individual is treated as deriving an amount in respect of the realisation equal to the market value of the asset.
- The person who acquires the asset is treated as incurring an expenditure of the amount equal to the market value of the asset. (5 marks to be allocated)

c) The tax implication of the gifts received by Madam Okailey are as follows:

	GH¢	
Market Queens Association	1,000	This is taxable
Commercial Bank (Pick-Up)	5,000	This is taxable
Namoale Traditional Council	500	This is taxable
Father-in-Law	500	This is taxable
Anonymous admirer	1,000	This is taxable

The donations made will have the following tax implication in the hands of those who received the gifts from Madam Okailey:

Osu Children's Home Pick-Up Vehicle. This will not be taxed in the hands of the Home

	GH¢	
Children's Hospital (Accra)	1,000	This is not taxable
Weija Leprosarium	500	This is not taxable
Children's Ward Korle Bu (Assorted Biscuits)	200	This is not taxable
Thanksgiving Offering (Church,)	200	This is not taxable

(5 marks to be allocated)

d) The First Tier

This tier is a mandatory scheme that is managed by the Social Security and National Insurance Trust (SSNIT). The contribution amount due is 13.5% of the employee's basic monthly salary. The employer pays 13% and the employee pays 0.5%. This amount is paid to SSNIT. Note that the employee gets a tax relief on the percentage he/she personally contributed — i.e. the 0.5%.

The contributions for any given month are due no later than 14 days after the end of that month. So, effectively employers will pay their previous month's contributions to SSNIT on the 14th of every month.

The Second Tier

The second tier is also mandatory but unlike the first tier, it is managed by Private Pension Service Providers (PSPs). The contribution amount due is 5% of the employee's basic monthly salary. This cost is borne by the employee.

The main distinction here is that the contribution is not paid to SSNIT, but rather, the employer is allowed to select their preferred Pension Service Provider. This gives employees a chance to earn higher rates of return on their investment, usually above what SSNIT offers.

The Third Tier

This is a voluntary provident fund and personal pension scheme. It is supported by tax benefits to provide additional funds for workers who want to make voluntary contributions to enhance their pension benefits. (5 marks to be allocated) (Total: 20 marks)

EXAMINER'S COMMENTS

- This was a well answered question. The question on capital gain was the best answered question. Most of the students scored high marks.
- The poorly answered part of the question was the Ghana Insurance Pension Scheme. This is part of the syllabus and students should pay attention to it

CONCLUSION

- Tuition centres and students should bear in mind that the subsequent examinations will cover the entire syllabus and therefore, pay attention to the entire syllabus. There should not be any pick and choose attitude towards the syllabus.
- Students should pay attention to details when reading. It seems students do not read carefully in between the lines when reading. This was clearly demonstrated in the examination. Half-baked answers were provided.