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THEME:
The Intriguing Effect of Treasury Single Account Implementation on Public Financial Management in Ghana

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INTEGRITY

CONTENTS

BUSINESS COMBINATIONS: DETERMINATION OF GOODWILL AT THE DATE OF ACQUISITION

By : Joseph Kum

1. Introduction

Business combination occurs when an entity takes control of another business organization for a consideration (in the form of cash, liabilities, equity or combination of these). According to International Financial Reporting Standard 3, business combination is defined as "a transaction or other event in which an acquirer obtains control of one or more businesses...........business combination as the term is used in [IFRS 3]''. Business combination may take the form of associations (trade associations and chamber of commerce), federations (pools and cartels) and consolidation (partial and complete consolidations). For the purpose of this article I shall concentrate on consolidation. Partial consolidation is when two or more firms come together under more formalized ownership and control whilst retaining their respective identities. Consolidation of this nature may create parent –subsidiary relationships. Complete consolidation arises when two or more concerns combine to transfer their assets and liabilities to a new company or when one company absorbs another concern by outright purchase of its business. Examples are mergers and amalgamations.

The Ghanaian economy has experienced one form or the other of business combinations in recent years. In 2011, Ecobank Transnational Incorporated (Ecobank), the parent company of Ecobank Group, acquired a significant equity stake in The Trust Bank (TTB). Again, the Fidelity Bank acquired 100% ownership of ProCredit Savings and Loans Company (ProCredit Ghana) from ProCredit Holdings and the Deon Foundation of the Netherlands in 2014. Another dramatic merger in Ghana was the merger between the Bharti Airtel and Millicom's Tigo in 2017.

Recently, following the increment of capitalization threshold of all universal banks to Four Hundred Million Ghana Cedis (GHS400 million) by the Bank of Ghana; the only way out for struggling banks like Construction Bank, Beige Bank, Royal Bank, Unibank and Sovereign Bank was through merger. "In August 2018, the Bank of Ghana desolved five banks by revoking their licenses and granted a universal license to Consolidated Bank of Ghana (CBG) Limited, established by the Government to assume all deposits and some selected assets of the defunct banks" (Bank of Ghana, 2018). "It should however, be noted that due to the recent turbulence including the recapitalization, revocation of operating licenses and/or consolidation of banks by the regulator as well as merger and acquisitions among banks there are now 23 universal banks currently licensed by Bank of Ghana…" (Gbadago, 2019).

2. Reasons for Business Combinations

Many business organizations enter into business combinations in order to take advantage of certain strategic positions other business entities have created for themselves in the industry. Some of these corporate advantages include:

- lower cost advantages
- lower risk exposures,
- fewer operating delays and challenges
- reputable corporate image
- economies of large –scale operation
- sustainable capitalization
- strategic competitive advantages
- customer loyalty
- strategic business locations
- enjoyment of monopolistic power
- competencies of key management personnel and
- possessions of key technology wor specialized equipment.

All the above strategic advantages are assets of the acquired entity which are inherent in the business but are not readily displayed on the statement of financial position. Therefore, during acquisitions, the shareholders of the acquired business also expect to receive compensation for these intangible assets. They normally demand extra compensation in excess of the fair value of their tangible net assets and hence the issue of goodwill comes to play. Most professional Accounting examination questions on consolidated accounts involve the determination of goodwill on date of acquisition either explicitly required or not and it is therefore imperative that students understand the concept and principle that underpin the determination of goodwill.

3. What is Goodwill?

Goodwill is an intangible asset associated with business combinations. It arises when the purchase consideration is greater than the fair value of the net identifiable assets acquired at acquisition date. Determination of amount of goodwill is governed by the IFRS 3. The Standard provides the following formula:

G= C +NCI + FV-NA, where:
G=Goodwill
C= Fair Value of Purchased Consideration.
NCI=Non-Controlling Interest
FV= Fair value of previously held equity interest in the acquiree's net assets
NA=Net Assets of the acquire at the date of acquisition.

There are two methods of calculating goodwill. The Full Goodwill Method and the Partial Goodwill Method. Entities have the liberty to choose which method to use in valuing goodwill. However, it must be noted that the method to use depends on how the NCI is valued.

3.1 Full Goodwill Method

This method, also known as the Fair Value Method, takes into account the fair value of NCI in determining goodwill. In most examinable questions, the fair value of NCI will be given or clues will be provided as to how to determine the fair value of the NCI. However, if it is not provided in the question, simple proportion can be applied to the fair value of consideration to obtain an approximate fair value for the NCI. For example, company A acquired 75% equity shares in Company B for GHC35,000.00. on 30th April 2009. What is the fair value of NCI?.

Suggested Solution:

Fair Value of Controlling Interest	75%	=	GHC35,000.00
Fair Value of Non-Controlling Interest	25%	=	X

X= 25/75 * 35,000.00 = GHC11,666.67

Example 1

On 31st March, 2018, Amaco Co. Ltd acquired 80% equity interest in Ntos Ltd for Ghc 120 million. The fair value of Ntos Ltd net identifiable assets on that date was Ghc140 million. The directors of Ntos Ltd estimated the value of non-controlling interest to be Ghc32 million. Calculate Goodwill using the full method.

Suggested Solution:

	Ghc(m)
Fair Value of Consideration	120
Fair Value of NCI	32
	152
Less NA	140
	12

Example 2

On 1st July, 2018, Sugar Ltd acquired 90% shares of Gari Ltd for Ghc435,240.00. At this date, the equity shares of Gari Ltd consisted of share capital of Ghc300,000.00 and retained earnings of Ghc120,000.00. All the identifiable assets and liabilities of Gari Ltd were recorded at amounts equal to their fair value except for:

Assets	Carrying Amount	Fair Value
Land	Ghc80,000	Ghc95,000
Plant (Cost Ghc380,000)	Ghc300,000	Ghc330,000
Inventory	Ghc15,000	Ghc18,000

Required:

Determine the value of goodwill at the date of acquisition using the full goodwill method assuming the fair value of non-controlling interest was Ghc47,700.

Suggested Solution:

Fair Value of Net Assets at Acquisition	Ghc
Land (95,000-80,000)	15,000
Plant (330,000-300,000)	30,000
Inventory(18,000-15,000)	3,000
Equity Shares	300,000
Retained Earnings	120,000
	468,000

Goodwill-Full Method	Ghc
Purchased Consideration	435,240

Fair Value of NCI		47,700
	482,940	
Less NA	468,000	
	14,940	

3.2 Partial Goodwill

This method looks at the difference between the purchase consideration paid and the acquirer's share of the fair value of the net identifiable assets. Only the acquirer's share of goodwill is recognized. In other words, the partial goodwill method recognizes NCI at its share of identifiable net assets and does not include goodwill. It only records goodwill that relates to controlling interest. In example 1, assuming we were to calculate goodwill based on the partial method:

	Ghc(m)
Fair Value of Consideration	120
Less NA (80%*140)	112
	8

Similarly, in example 2, we can calculate goodwill under the partial method:

Partial Goodwill Method	**Ghc**
Purchased Consideration	435,240
Less NA (90% *468,000)	421,200
	14,040

4.Summary of Differences Between Full and Partial Goodwill Methods.

The under listed differences exist between the two methods:

	Full Method	Partial Method
Accounting Standards	Allowed under both GAAP and IFRS	Allowed under IFRS
Recording on Balance Sheet	All goodwill of subsidiary	Only ownership goodwill
Assets & Equity	High asset and equity	Lower assets and equity
ROA & ROE	Lower return on assets & equity	Higher return on assets and equity

References

Bank of Ghana (2018). Annual Report

Gbadago, F. Y. (2019). General overview of the financial systems, Students Journal, April/June: pp.2-9 International Financial Reporting Standard

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THE INTRIGUING EFFECT OF TREASURY SINGLE ACCOUNT IMPLEMENTATION ON PUBLIC FINANCIAL MANAGEMENT IN GHANA

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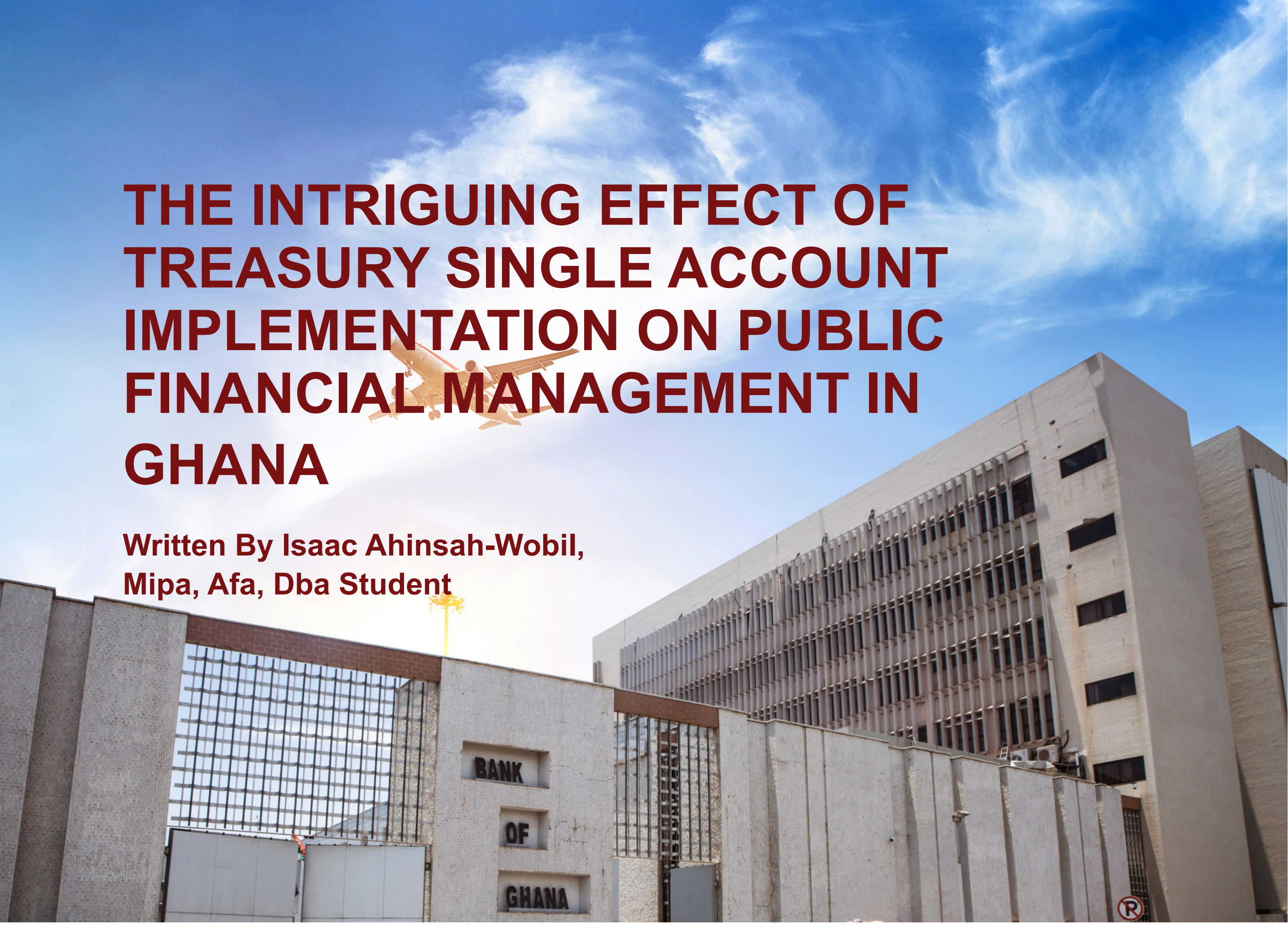


The transformation agent to strengthen the judicious use of public funds has given wave for the introduction of Public Financial Management Reforms in Ghana. These reforms are expected to strengthen the fiscal space of the economy by giving free drive to budget implementation and economic development through the macro and micro indicators i.e. inflation, interest rate, exchange rate, debt to GDP, servicing of loans and growth rate. The major Public Financial Management Reform introduced by Government in 2010 is the Public Financial Management System: Ghana Integrated Financial Management Information Systems (GIFMIS), to integrate Public Expenditure and Revenue mobilization on a common platform with must focus on Budget implementation.

The Government in 2007 introduced the Treasury Single Account (TSA). The system was however not successful as a result of the absence of a legal framework to back the policy and wrong approach to implementation direction. With the passage of the Public Financial Management Act, 2016 (Act 921) which replaced the Financial Administration Act, 2003 (Act 654), the implementation of the Treasury Single Account has been given adequate momentum but still lacks its taste of relevancy.

Section 46 of the Public Financial Management Act, 2016 established the Treasury Single Account as a unified structure of government bank accounts that enables the consolidation of government cash resources, and into which all government cash including amounts of money received by covered entities shall be deposited and from which all expenditure of government and covered entities shall be made to ensure optimum utilisation of government cash resources.

The covered entities as stated in the Act include the Executive, Legislature and Judiciary; constitutional bodies; ministries, departments, agencies, and local government authorities; the public service; autonomous agencies and statutory bodies.

Working on the principle of unity of cash and unity of the treasury where the government notwithstanding its various sub-units could operate a single treasury and account, the successful implementation of the Treasury Single Account system in various countries across the world including but not limited to the United Kingdom, United States of America, Australia, India, Uganda, and Nigeria has contributed to effective cash management in these countries.

The primary objective for the adoption of the TSA is to ensure the effective consolidation of all government cash resources with the aim of improving control over public funds towards the improvement of efficient financial management while using the access to the cash resources to enhance monitoring.

In addition to the above, the government has to use this system to reduce the tendency of the government from borrowing at high-interest rates, while funds are sitting idle in the various accounts of the covered entities under consideration. This is expected to reduce to total finance cost incurred by the government from borrowing from the commercial bank or through the issue of Treasury Bills and Bonds.

The TSA is also expected to lower the actual government borrowings and reduce pressure on short-term yield with the objectives of driving down Treasury Bill rates over the medium-term. This forms a critical component of helping to reduce the cost of borrowing and reducing borrowing in the medium to long-term. This will help the government meet various funding obligations of government entities in a timely manner as there is a greater pool of funds available to the government for their operations, as well as a reduction in various transaction times required to raise the required revenue to meet particular commitments. Also, the maintenance of the Treasury Single Account is to reduce the risk of the government resorting to the Central Bank for overdrafts to finance its expenditure. It is also expected to reduce the cost of building buffers for cash management purposes.

With the reduction in the tendency of government from borrowing from the financial sector, it is expected to strengthen the government's fiscal space. The lower level of government activity is also expected to create room for the private sector to access funds within the financial sector to facilitate growth and development.

Implementation of Treasury Single Account

Although there are several variants of the TSA structure that conform to the objectives discussed above, most policy implementers of the subject broadly group it into two categories:

Centralized and Distributed TSA structures.

The TSA systems established in most countries fall somewhere in between these two models and involve various types of bank accounts. A purely centralised arrangement is one in which all revenue and expenditure transactions of the government pass through a single account generally maintained with the Central Bank. With this typical centralised system, the TSA is composed of a single bank account (sometimes with subsidiary ledger accounts) at the Central Bank which is operated either by a centralised authority (such as the treasury and its regional units) or by a number of budget institutions. At the other extreme, a TSA could be virtually operational even though line agencies down to the lowest level in the organisational hierarchy are allowed to retain separate transaction accounts in the banking system. However, in the latter case, balances in all transaction accounts should be transferred into the TSA main account at the end of each day. Countries, such as Uganda have several linked bank accounts outside the TSA's main account with their balances automatically remitted at the end of each day to the Central Bank.

With the implementation of the TSA in Ghana, the operating structure is tilted towards the decentralised operation of TSA and as such, will see the Government of Ghana closing over 15,172 bank accounts with the Bank of Ghana and commercial banks in Ghana. The implementation of this system is also in line with the requirement of the International Monetary Fund (IMF) in the Extended Credit Facility Agreement and is expected that the TSA will be well integrated into the Ghana Integrated Financial Management Information Systems. However, one major question is how the consolidation of cash balances through a TSA will interface with transaction processing and accounting systems, the latter being either centralised or decentralised.

Architecture and Institutional Scope

The Government of Ghana shall implement a Distributed TSA for both central and sub-national government entities. Under the Distributed architecture, line agencies down to the lowest level in the hierarchy are allowed to retain separate transaction accounts in the banking system. However, balances in all transaction accounts should be swept into the TSA main account at the end of each day. All MDAs, MMDAs, Public Institutions, Public Corporations, and State Owned Enterprises shall participate in the TSA. The Paris Declaration of 2005 on aid effectiveness encourages the integration of donor funds into the countries' PFM systems, which include the TSA. Such integration contributes to effective public financial management and helps in the economic growth of countries. To this end, Government is transferring donor funds from the commercial banks to the Central Bank. Locating the TSA at the Central Bank offers several advantages as stipulated by the IMF Working Paper:

- Provides a safe haven for government cash deposits which minimizes credit risk exposure. Aids the efficient management of government liquidity, and facilitates the Central Bank's coordination of its monetary policy operations in managing liquidity in the economy with government's cash and debt management functions.
- Can facilitate cost-effective banking arrangements and speedy settlements (it might be possible to negotiate with the Central Bank to act as the clearinghouse for government operations, which may speed up settlement).
- Allows for clarity of banking arrangements and remuneration policies between the Treasury and the Central Bank (a service level agreement is normally negotiated to clarify obligations and responsibilities when the Central Bank acts as the clearing house for government operations).

In view of this, Government is transferring all donor funds to the Central Bank to facilitate better fiscal and monetary policy coordination as well as better reconciliation of fiscal and banking data, which in turn will improve the quality of fiscal information. The successful implementation of the TSA would result in a major revamping of Ghana's Public Financial Management. Ghana's dream of achieving strong economic growth, therefore, requires the unflinching support of all Development Partners.

Benefits of TSA from the foregoing, it is obvious that the primary benefit of a TSA is the mechanism it provides for proper monitoring of government receipts and expenditure. In the Ghanaian case, it will help to block most if not all the leakages that have been the bane of the growth of the economy. We have a situation where some MDA's manage their finances like independent empire and remit limited revenue to government treasuries. Under a properly run TSA, this is not possible as agencies of government are meant to spend in line with duly approved budget provisions. The maintenance of a single account for the government will enable the Ministry of Finance to monitor fund flow as no agency of government is allowed to maintain any operational bank account outside the oversight of the Ministry of Finance. Below are some listed benefits of TSA:

Allows complete and timely information on government cash resources: In countries with advanced payment and settlement systems and an Integrated Financial Management Information System (IFMIS) with adequate interfaces with the banking system, this information will be available in real-time. As a minimum, complete updated balances should be available daily.

- Improves appropriation control: The TSA ensures that the Ministry of Finance has full control over budget allocations, and strengthens the authority of the budget appropriation. When separate bank accounts are maintained, the result is often a fragmented system, where funds provided for budgetary appropriations are augmented by additional cash resources that become available through various creative, often extra-budgetary, measures.
- Improves operational control during budget execution: When the treasury has full information about cash resources, it can plan and implement budget execution in an efficient, transparent, and reliable manner. The existence of uncertainty regarding whether the treasury will have sufficient funds to finance programmed expenditures may lead to sub-optimal behavior by budget entities, such as exaggerating their estimates for cash needs or channeling expenditures through off-budget arrangements.
- Enables efficient cash management: A TSA facilitates regular monitoring of government cash balances. It also enables higher quality cash outturn analysis to be undertaken (e.g., identifying causal factors of variances and distinguishing causal factors from random variations in cash balances).
- Reduces bank fees and transaction costs: Reducing the number of bank accounts results in a lower administrative cost for the government for maintaining these accounts, including the cost associated with bank reconciliation, and reduced banking fees.
- Facilitates efficient payment mechanisms. A TSA ensures that there is no ambiguity regarding the volume or the location of the government

funds, and makes it possible to monitor payment mechanisms precisely. It can result in substantially lower transaction costs because of economies of scale in processing payments. The establishment of a TSA is usually combined with elimination of the “float” in the banking and the payment systems, and the introduction of transparent fee and penalty structures for payment services. Many governments have achieved substantial reductions in their real cost of banking services by introducing a TSA.

- Improves bank reconciliation and quality of fiscal data: A TSA allows for effective reconciliation between the government accounting systems and cash flow statements from the banking system. This reduces the risk of errors in reconciliation processes, and improves the timeliness and quality of the fiscal accounts.
- Lowers liquidity reserve needs: A TSA reduces the volatility of cash flows through the treasury, thus allowing it to maintain a lower cash reserve/ buffer to meet unexpected fiscal volatility.

Disadvantages

- It is not all rosy though since there may be some legal barriers to full implementation of TSA. Some MDAs have financial autonomy granted to them by legislation including powers to maintain a fund from which to pay expenses and even to invest surplus funds and maintain a reserve.
- Some MDAs generate revenue in various foreign currencies and TSA should also cater for them especially dealing with exchange difference accounting in their respective annual reports given that the means of establishing exchange differences at the end of the period by translating closing foreign currency balances may no longer be applicable.
- States and local governments should also be encouraged to adopt TSA so that monthly Government account allocations can be paid directly into their TSAs held at the Bank of Ghana thereby making it easier for the government to manage liquidity in the system.

Banks and Challenge of Treasury Single Account Policy

There have been mixed feelings about the effects and consequences of the newly introduced Treasury Single Account by the Ministry of Finance, ministries, departments, and agencies as well as government business operators.

While some financial operators believe that the policy will give the government an opportunity to have one-hand information about its accounts, others feel that withdrawing the funds from commercial banks will further deplete the account of such banks as well as not offering the MDAs the privilege, the opportunity to monitor their own accounts where it is domiciled. Others also believe that the single account policy will create problems especially where it will be difficult for the Government to be able to know at a glance the revenue accruing to each ministry or amount debited, as all accounts would have been lumped together.

Some analysts have said that in the event of Ministries, Departments and Agencies, (MDAs) fully complying with the directive to pay all their monies into a Treasury Single Account, TSA, banks may lose major projected sum saved with them by the MDAs. According to findings, banks may lose not less than 6 billion Ghana cedis as a result of the transparency move. Also, it is expected that the returns of lenders in the economy driven substantially by net interest margins would further be crippled by the TSA implementation because the single account which is supposed to unify and monitor incoming and outgoing government transactions for transparency and accountability will deny the banks funds belonging to MDAs currently in the vaults of banks.

The implementation of the policy has not been effective due to inadequate impact on the target outcome to be achieved. The success story cannot be celebrated since the expectant result cannot be felt in the management of public funds. Purposefully much has to do with the implementation of the policy. The policy is to make available idle funds in the commercial banks and the Central Bank useful by discouraging domestic borrowing and the need to fall on overdraft at needed time.

The policy is to vent the decentralization of Bank Accounts span through the district and municipal into a centralized account at the Bank of Ghana. This practice will give meaning to Government laying hands on all Government funds available at the moment for quick decision to managing of funds. Government at a point of payment of salary with dwindling funds of the Consolidated Account, it is always necessary to fall on the inactive funds of the MDAs and MMDAs. To strategically implement the policy effectively and efficiently, there is the need for

Ministry of Finance to embark on strict adherence to Cash Position, Cash Ceiling and Action Plan. Cash positioning is a planning tool that helps you view your daily cash position by currency or bank account. It allows you to project your cash needs, and evaluate your company's liquidity position. The daily cash positions are based on actual cash flows from various Oracle Applications (GIFMIS).

The overriding objective of cash positioning is to ensure that the government is able to fund its expenditure in a timely manner and meet its obligations as they fall due. Cost-effectiveness, risk reduction, and operational efficiency are also important. Cash positioning is a critical, albeit not so visible, dimension of effective public financial management, with important linkages to monetary policy implementation. More precisely, cash positioning encompasses two distinct but related activities: cash flow forecasting and cash balance management. The positioning is to answer questions: (i) Over a given time period (daily, weekly, monthly, and so on), what is the volume of the government's aggregate cash inflows and outflows? (ii) At the end of each time period, what is the balance of cash at hand? The latter is concerned with this question: (iii) What actions do the government take to ensure that it has the "correct" amount of cash at hand at any point? This posting highlights some of the issues related to managing cash balances, which is not very well covered in the public financial management literatures.

Changes in the daily cash balance of the TSA are domiciled at the Central Bank, and are mirrored by changes in banking sector liquidity. Indeed, they may be the most significant autonomous influence on liquidity. The Central Bank takes these changes into account in its monetary policy operations. Effective cash positioning is characterized by agreement between the ministry of finance and the Central Bank on the flow of information from the ministry of finance to the Central Bank on the likely future size of the TSA. Ideally, this should be provided in real-time, or at least before the start of each day. In as much as the Ministry of Finance can manage its cash flows reasonably tightly around a target balance for the TSA, the government's cash balance becomes largely neutral for monetary policy purposes.

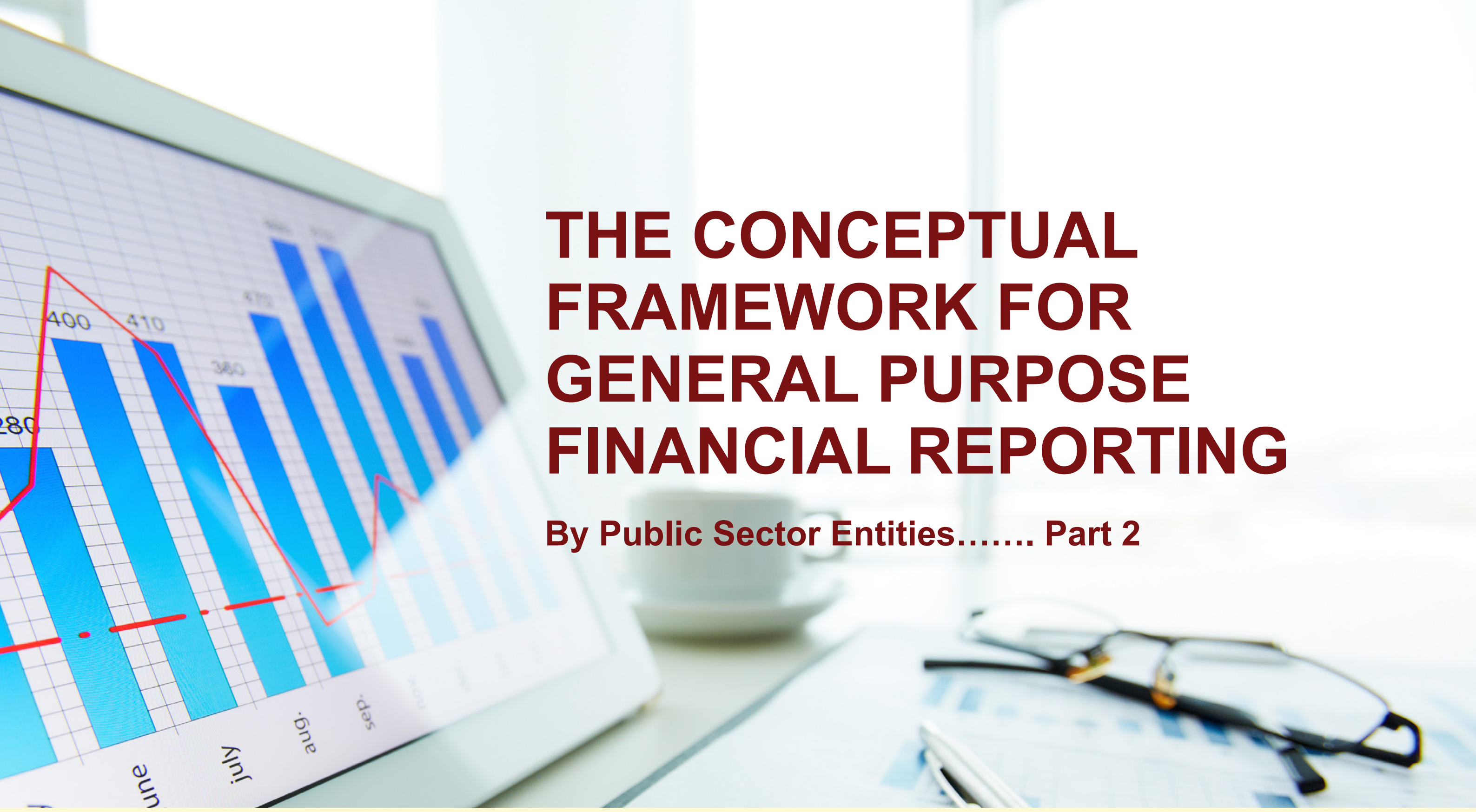
Action Plans: As part of the strategy to get a meaningful implementation of the TSA the Ministry of finance should be concerned and focus on institution's action plans to determine the cash needed to undertake activities at a particular time within the budget circle in an institution. With effective monitoring of Action Plans, one could tell the amount of cash needed within a quarter and annually. The accrued amount sitting idle in institutions accounts with commercial banks can be utilized accordingly for profitable ventures before the lapse of budget.

Cash Positioning: Cash positioning is a planning tool that helps you view your daily cash position by currency or bank account. Cash positioning allows you to project your cash needs, and evaluate your liquidity position. The daily cash positions are based on actual cash flows.

Cash Disbursement Ceiling (CDC): The CDC accounting is another control mechanism of the government accounting system. The cash operations of the government under the CDC accounting are limited within the boundaries of the appropriations released to government agencies in the form of allotments. The Ministry of Finance must instruct institutions to adhere to cash ceiling principles. The budget is broken down into ceilings and monitored sector by sector.

Emphasis on Budget: Another important characteristic of government accounting is its emphasis on budget. Expenditures cannot be incurred without the prior approval of a budget by the legislative body of government. An item of expenditure may be legal but the absence of a budget or funding makes the transaction impossible.

The government needs a serious implementation strategy to achieve the stated objective of the Treasury Single Account. The above guidelines will make much impact and also put to use idle monies sitting at commercial banks. The Central Accounts should be highly considered if success needs to be choked.



THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING

By Public Sector Entities……. Part 2

CHAPTER 5: ELEMENTS IN FINANCIAL STATEMENTS

Financial statements portray the financial effects of transactions and other events by grouping them into broad classes which share common economic characteristics. These broad classes are termed the elements of financial statements. Elements are the building blocks from which financial statements are constructed. These building blocks provide an initial point for recording, classifying and aggregating economic data and activity in a way that provides users with information that meets the objectives of financial reporting and achieves the qualitative characteristics of financial reporting while taking into account the constraints on information included in GPFRs.

Elements Defined

- The elements are:
- Assets;
- Liabilities;
- Revenue;
- Expense;
- Ownership contributions; and
- Ownership distributions.

Assets

An asset is a resource presently controlled by the entity as a result of a past event.

A resource is an item with service potential or the ability to generate economic benefits. Physical form is not a necessary condition of a resource. The service potential or ability to generate economic benefits can arise directly from the resource itself or from the rights to use the resource.

Economic benefits are cash inflows or a reduction in cash outflows. Cash inflows (or reduced cash outflows) may be derived from, for example:

- An asset's use in the production and sale of services; or
- The direct exchange of an asset for cash or other resources;

An entity must have control of the resource. Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives. In assessing whether it presently controls a resource, an entity assesses whether the following indicators of control exist:

- Legal ownership;
- Access to the resource, or the ability to deny or restrict access to the resource;
- The means to ensure that the resource is used to achieve its objectives; and
- The existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource.

While these indicators are not conclusive determinants of whether control exists, identification and analysis of them can inform that decision.

Past Event: The definition of an asset requires that a resource that an entity presently controls must have arisen from a past transaction or other past event. Entities can obtain assets by purchasing them in an exchange transaction or developing them. Assets may also arise through non-exchange transactions, including through the exercising of sovereign powers.

Liabilities

A liability is a present obligation of the entity for an outflow of resources that results from a past event.

A present obligation is a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid. Obligations are not present obligations unless they are binding and there is little or no realistic alternative to avoid an outflow of resources.

An Outflow of Resources from the Entity: A liability must involve an outflow of resources from the entity for it to be settled. An obligation that can be settled without an outflow of resources from the entity is not a liability.

Revenue and Expense

Revenue is *increases in the net financial position of the entity, other than increases arising from ownership contributions*.

Expense is *decreases in the net financial position of the entity, other than decreases arising from ownership distributions.*

Revenue and expense arise from exchange and non-exchange transactions, other events such as unrealized increases and decreases in the value of assets and liabilities, and the consumption of assets through depreciation and erosion of service potential and ability to generate economic benefits through impairments. Revenue and expense may arise from individual transactions or groups of transactions.

Surplus or Deficit for the Period

The entity's surplus or deficit for the period is the difference between revenue and expense reported on the statement of financial performance.

Ownership Contributions and Ownership Distributions

Ownership contributions are inflows of resources to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity. Ownership distributions are outflows of resources from the entity, distributed to external parties in their capacity as owners, which return or reduce an interest in the net financial position of the entity.

CHAPTER 6: RECOGNITION IN FINANCIAL STATEMENTS

Recognition Criteria and their Relationship to Disclosure

Recognition is the process of incorporating and including in amounts displayed on the face of the appropriate financial statement an item that meets the definition of an element and can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information included in GPFRs.

The recognition criteria are that:

- An item satisfies the definition of an element; and
- Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs.

All items that satisfy the recognition criteria are recognized in the financial statements. In some circumstances, an IPSAS may also specify that, to achieve the objectives of financial reporting, a resource or obligation that does not meet the definition of an element is to be recognized in the financial statements provided it can be measured in a way that meets the qualitative characteristics and constraints.

Recognition involves an assessment of uncertainty related to the existence and measurement of the element. The conditions that give rise to uncertainty, if any, can change. Therefore, it is important that uncertainty is assessed at each reporting date.

Definition of an Element

Uncertainty about the existence of an element is addressed by considering the available evidence in order to make a neutral judgment about whether an item satisfies all essential characteristics of the definition of that element, taking into account all available facts and circumstances at the reporting date.

Measurement Uncertainty

In order to recognize an item in the financial statements, it is necessary to attach a monetary value to the item. This entails choosing an appropriate measurement basis and determining whether the measurement of the item achieves the qualitative characteristics, taking into account the constraints on information in GPFRs, including that the measurement is sufficiently relevant and faithfully representative for the item to be recognized in the financial statements.
There may be uncertainty associated with the measurement of many amounts presented in the financial statements. The use of estimates is an essential part of the accrual basis of accounting. A decision about the relevance and faithful representativeness of measurement involves the consideration of techniques, such as using ranges of outcomes and point estimates, and whether additional evidence is available about economic circumstances that existed at the reporting date. Disclosures can provide useful information on estimation techniques employed.

Disclosure and Recognition

The failure to recognize items that meet the definition of an element and the recognition criteria is not rectified by the disclosure of accounting policies, notes or other explanatory detail. However, disclosure can provide information about items that meet many, but not all the characteristics of the definition of an element. Disclosure can also provide information on items that meet the definition of an element but cannot be measured in a manner that achieves the qualitative characteristics sufficiently to meet the objectives of financial reporting. Disclosure is appropriate when knowledge of the item is considered to be relevant to the evaluation of the net financial position of the entity and therefore meets the objectives of financial reporting.

Derecognition

Derecognition is the process of evaluating whether changes have occurred since the previous reporting date that warrant removing an element that has been previously recognized from the financial statements, and removing the item if such changes have occurred. In evaluating uncertainty about the existence of an element the same criteria are used for derecognition as at initial recognition.

CHAPTER 7: MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS

The Objective of Measurement

The objective of measurement is to select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

The selection of a measurement basis for assets and liabilities contributes to meeting the objectives of financial reporting in the public sector by providing information that enables users to assess:

- The cost of services provided in the period in historical or current terms;
- Operational capacity—the capacity of the entity to support the provision of services in future periods through physical and other resources; and
- Financial capacity—the capacity of the entity to fund its activities.

The selection of a measurement basis also includes an evaluation of the extent to which the information provided achieves the qualitative characteristics while taking into account the constraints on information in financial reports.

Measurement Bases and their Selection

It is not possible to identify a single measurement basis that best meets the measurement objective at a Conceptual Framework level. Therefore, the Conceptual Framework does not propose a single measurement basis (or combination of bases) for all transactions, events and conditions. It provides guidance on the selection of a measurement basis for assets and liabilities in order to meet the measurement objective.

The following measurement bases for assets are identified and discussed in terms of the information they provide about the cost of services delivered by an entity, the operating capacity of an entity and the financial capacity of an entity, and the extent to which they provide information that meets the qualitative characteristics:

- Historical cost;
- Market value;
- Replacement cost;
- Net selling price; and
- Value in use.

Table 1 summarizes these measurement bases in terms of whether they (a) provide entry or exit values; (b) are observable in a market; and (c) whether or not they are entity-specific

Table 1: Summary of Measurement Bases for Assets

Measurement Basis	Entry or Exit	Observable or Unobservable in a Market	Entity or Non-entity Specific
Historical cost	Entry	Generally observable	Entity-specific
Market value in open, active and orderly market	Entry and exit	Observable	Non-entity-specific
Market value in inactive market	Exit	Dependent on valuation technique	Dependent on valuation technique
Replacement cost	Entry	Observable	Entity-specific
Net selling price	Exit	Observable	Entity-specific
Value in use	Exit	Unobservable	Entity-specific

The following measurement bases for liabilities are identified and discussed in terms of (a) the information they provide about the cost of services delivered by an entity, the operating capacity of an entity and the financial capacity of an entity; and (b) the extent to which they provide information that meets the qualitative characteristics:

- Historical cost;
- Cost of fulfillment;
- Market value;
- Cost of release; and
- Assumption price.

Table 2 summarizes these measurement bases in terms of whether they (a) provide entry or exit values; (b) are observable in a market; and (c) whether or not they are entity-specific.

Table 2: Summary of Measurement Bases for Liabilities

Measurement Basis	Entry or Exit	Observable or Unobservable in a Market	Entity or Non-entity Specific
Historical cost	Entry	Generally observable	Entity-specific
Cost of fulfillment	Exit	Unobservable	Entity-specific
Market value in open, active and orderly market	Entry and exit	Observable	Non-entity specific
Market value in inactive market	Exit	Dependent on valuation technique	Dependent on valuation technique
Cost of release	Exit	Observable	Entity-specific
Assumption price	Entry	Observable	Entity-specific

Entry and Exit Values

Measurement bases may provide either entry or exit values. For assets, entry values reflect the cost of purchase. Historical cost and replacement cost are entry values. Exit values reflect the economic benefits from sale. An exit value also reflects the amount that will be derived from use of the asset.
In a diversified economy entry and exit prices differ as entities typically:

- Acquire assets tailored to the entity's particular operating requirements for which other market participants would be unwilling to pay a similar price; and
- Incur transaction costs on acquisition.

Measurement bases for liabilities may also be classified in terms of whether they are entry or exit values. Entry values relate to the transaction under which an obligation is received or the amount that an entity would accept to assume a liability. Exit values reflect the amount required to fulfill an obligation or the amount required to release the entity from an obligation.

Observable and Unobservable Measures

Certain measures may be classified according to whether they are observable in an open, active and orderly market. Measures that are observable in a market are likely to be more understandable and verifiable than measures that are not observable. They may also be more faithfully representative of the phenomena they are measuring.

Entity-Specific and Non-Entity Specific Measures

Measures may also be classified according to whether they are "entity-specific" or "non-entity-specific". Measurement bases that are entity-specific reflect the economic and current policy constraints that affect the possible uses of an asset and the settlement of a liability by an entity.
Entity-specific measures may reflect economic opportunities that are not available to other entities and risks that are not experienced by other entities. Non-entity-specific measures reflect general market opportunities and risks. The decision on whether to use an entity-specific or non-entity- specific measure is taken by reference to the measurement objective and the qualitative characteristics.

Level of Aggregation or Disaggregation for Measurement

In order to present assets and liabilities in the financial statements in a way that provides information that best meets the measurement objective and achieves the qualitative characteristics it may be necessary to aggregate or disaggregate them for measurement purposes. In assessing whether such an aggregation or disaggregation is appropriate the costs are compared with the benefits.

Measurement Bases for Assets
Historical Cost

Historical cost for an asset is the consideration given to acquire or develop an asset, which is the cash or cash equivalents or the value of the other consideration given, at the time of its acquisition or development.

Historical cost is an entry, entity-specific value. Under the historical cost model assets are initially reported at the cost incurred on their acquisition. Subsequent to initial recognition, this cost may be allocated as an expense to reporting periods in the form of depreciation or amortization for certain assets, as the service potential or ability to generate economic benefits provided by such assets are consumed over their useful lives.

Costs of Services: Where historical cost is used, the cost of services reflects the amount of the resources expended to acquire or develop assets consumed in the provision of services. Historical cost generally provides a direct link to the transactions actually undertaken by the entity.

Operational Capacity: If an asset has been acquired in an exchange transaction, historical cost provides information on the resources available to provide services in future periods, based on their acquisition cost. At the time an asset is purchased or developed, it can be assumed that the value to the entity of its service potential is at least as great as the cost of purchase. When depreciation or amortization is recognized it reflects the extent to which the service potential of an asset has been consumed.

Financial Capacity: The amount at which assets are stated in financial statements assists in an assessment of financial capacity. Historical cost can provide information on the amount of assets that may be used as effective security for borrowings. An assessment of financial capacity also requires information on the amount that could be received on sale of an asset, and reinvested in assets to provide different services. Historical cost does not provide this information when significantly different from current exit values.

Current Value Measurements

Current value measurements reflect the economic environment prevailing at the reporting date.

There are four current value measurement bases for assets:

- Market value;
- Replacement cost;
- Net selling price; and
- Value in use.

Market Value

Market value for assets is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

At acquisition market value and historical cost will be the same, if transaction costs are ignored and the transaction is an exchange transaction. The extent to which market value meets the objectives of financial reporting and the information needs of users partially depends on the quality of the market evidence. Market evidence, in turn, depends upon the characteristics of the market in which the asset is traded. Market value is particularly appropriate where it is judged that the difference between entry and exit values is unlikely to be significant or the asset is being held with a view to sale.

In principle, market values provide useful information because they fairly reflect the value of the asset to the entity. In an open, active and orderly market, the asset cannot be worth less than market value as the entity can obtain that amount by selling the asset, and cannot be worth more than market value, as the entity can obtain equivalent service potential or the ability to generate economic benefits by purchasing the same asset.

Costs of Services: Revenue from services reported in financial statements is measured on the basis of prices current in the reporting period. If assets used to provide services are measured at market value, the allocation of the cost of assets to reflect their consumption in the current reporting period is based on the current market value of the asset.

Operational Capacity: Information on the market value of assets held to provide services in future periods is useful if it reflects the value that the entity is capable of deriving from assets by using them in providing or delivering services. However, if an exit-based market value is significantly lower than historical cost, market value is likely to be less relevant than the historical cost of such assets in providing information on operational capacity—such a market value is also likely to be less relevant than entry value-based current measures.

Financial Capacity: An assessment of financial capacity requires information on the amount that would be received on sale of an asset. This information is provided by market value.

Replacement Cost

Replacement cost is *the most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date.*

Replacement cost differs from market value because:

- In a public sector context, it is explicitly an entry value that reflects the cost of replacing the service potential of an asset;
- It includes all the costs that would necessarily be incurred in the replacement of the service potential of an asset; and
- It is entity specific and therefore reflects the economic position of the entity, rather than the position prevailing in a hypothetical market. For example, the replacement cost of a vehicle is less for an entity that usually acquires a large number of vehicles in a single transaction and is regularly able to negotiate discounts than for an entity that purchases vehicles individually.

Because entities usually acquire their assets by the most economic means available, replacement cost reflects the procurement or construction process that an entity generally follows. Replacement cost reflects the replacement of service potential in the normal course of operations, and not the costs that might be incurred if an urgent necessity arose as a result of some unforeseeable event, such as a fire.

Costs of Services: Replacement cost provides a relevant measure of the cost of the provision of services. The cost of consuming an asset is equivalent to the amount of the sacrifice of service potential incurred by that use. That amount is its replacement cost—the entity is able to restore its position to that prevailing immediately before the consumption of the asset by an outlay equal to replacement cost.

Operational Capacity: In principle, replacement cost provides a useful measure of the resources available to provide services in future periods, as it is focused on the current value of assets and their service potential to the entity.

Financial Capacity: Replacement cost does not provide information on the amounts that would be received on the sale of assets. It therefore does not facilitate an assessment of financial capacity.

Net Selling Price

Net selling price is *the amount that the entity can obtain from sale of the asset, after deducting the costs of sale.*

Net selling price differs from market value in that it does not require an open, active and orderly market or the estimation of a price in such a market and that it includes the entity's costs of sale. Net selling price therefore reflects constraints on sale. It is entity-specific.

The potential usefulness of measuring assets at net selling price is that an asset cannot be worth less to the entity than the amount it could obtain on sale of the asset. However, it is not appropriate as a measurement basis if the entity is able to use its resources more efficiently by employing the asset in another way, for example by using it in the delivery of services.

Net selling price is therefore useful where the most resource-efficient course available to the entity is to sell the asset. This is the case where the asset cannot provide service potential or the ability to generate economic benefits at least as valuable as net selling price. Net selling price may provide useful information where an entity is contractually obligated to sell an asset at below market value. There may be cases where net selling price can indicate a development opportunity.

Costs of Services: It is not appropriate to quantify the cost of the provision of services at net selling prices. Such an approach would involve the use of an exit value as the basis of the expense reported.
Operational Capacity: Stating assets held for use in the provision of services at net selling price does not provide information useful to an assessment of operating capacity. Net selling price shows the amount that could be derived from an asset's sale, rather than the value of the service potential that could be derived from that asset.

Financial Capacity: As noted above, an assessment of financial capacity requires information on the amount that would be received on sale of an asset. Such information is provided by the use of net selling price. However, such a measure is not relevant for assets that may yield more valuable service potential by continuing to use them to deliver services.

Value in Use

Value in use is the present value to the entity of the asset's remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life. Value in use is an entity-specific value that reflects the amount that can be derived from an asset through its operation and its disposal at the end of its useful life. The value that will be derived from an asset is often greater than its replacement cost—it is also usually greater than its historical cost. Where this is the case, reporting an asset at its value in use is of limited usefulness, as by definition, the entity is able to secure equivalent service potential at replacement cost.

Value in use is also not an appropriate measurement basis when net selling price is greater than value in use, as in this case the most resource-efficient use of the asset is to sell it, rather than continue to use it.

Therefore, value in use is appropriate where it is less than replacement cost and greater than net selling price. This occurs where an asset is not worth replacing, but the value of its service potential or ability to generate economic benefits is greater than its net selling price. In such circumstances value in use represents the value of the asset to the entity.

Value in use is an appropriate measurement basis for the assessment of certain impairments, because it is used in the determination of the recoverable amount for an asset or group of assets.

Costs of Services, Operational Capacity, Financial Capacity

Because of its potential complexity, its limited applicability and the fact that its operationalization in a public sector context for non-cash-generating assets involves the use of replacement cost as a surrogate, value in use is generally inappropriate for determining the cost of services. Its usefulness to assessments of operational capacity is limited, and is only likely to be significant in the atypical circumstances where entities have a large number of assets that are not worth replacing, but their value in use is greater than their net selling price. This may be the case if, for example, an entity will discontinue provision of a service in the future, but the proceeds of immediate sale are less than the service potential embodied in the assets. Value in use does involve an estimate of the net amount that an entity will receive from disposal of the asset. However, its limited applicability reduces its relevance for assessments of financial capacity.

Measurement Bases for Liabilities

This section discusses the measurement bases for liabilities. This section does not repeat all the discussion in the section on assets. It considers the following measurement bases:

- Historical Cost;
- Cost of Fulfillment;
- Market Value;
- Cost of Release; and
- Assumption Price.

Historical Cost

Historical cost for a liability is the consideration received to assume an obligation, which is the cash or cash equivalents, or the value of the other consideration received at the time the liability is incurred.

Under the historical cost model initial measures may be adjusted to reflect factors such as the accrual of interest, the accretion of discount or amortization of a premium.

Where the time value of a liability is material—for example, where the length of time before settlement falls due is significant— the amount of the future payment is discounted so that, at the time a liability is first recognized, it represents the value of the amount received. The difference between the amount of the future payment and the present value of the liability is amortized over the life of the liability, so that the liability is stated at the amount of the required payment when it falls due.

The advantages and drawbacks of using the historical cost basis for liabilities are similar to those that apply in relation to assets. Historical cost is appropriate where liabilities are likely to be settled at stated terms. However, historical cost cannot be applied for liabilities that do not arise from a transaction, such as a liability to pay damages for a tort or civil damages. It is also unlikely to provide relevant information where the liability has been incurred in a non-exchange transaction, because it does not provide a faithful representation of the claims against the resources of the entity. It is also difficult to apply historical cost to liabilities that may vary in amount, such as those related to defined benefit pension liabilities.

Cost of Fulfillment

Cost of fulfillment is the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner. Where the cost of fulfillment depends on uncertain future events, all possible outcomes are taken into account in the estimated cost of fulfillment, which aims to reflect all those possible outcomes in an unbiased manner.

Where fulfillment requires work to be done—for example, where the liability is to rectify environmental damage—the relevant costs are those that the entity will incur. This may be the cost to the entity of doing the remedial work itself, or of contracting with an external party to carry out the work. However, the costs of contracting with an external party are only relevant where employing a contractor is the least costly means of fulfilling the obligation.

Where fulfillment will be made by the entity itself, the fulfillment cost does not include any surplus, because any such surplus does not represent a use of the entity's resources. Where fulfillment amount is based on the cost of employing a contractor, the amount will implicitly include the profit required by the contractor, as the total amount charged by the contractor will be a claim on the entity's resources—this is consistent with the approach for assets, where replacement cost would include the profit required by a supplier, but no profit would be included in the replacement cost for assets that the entity would replace through self-construction.

Where fulfillment will not take place for an extended period, the cash flows need to be discounted to reflect the value of the liability at the reporting date.

Cost of fulfillment is generally relevant for measuring liabilities except in the following circumstances:

- Where the entity can obtain release from an obligation at a lower amount than cost of fulfillment, then cost of release is a more relevant measure of the current burden of a liability, just as, for an asset, net selling price is more relevant when it is higher than value in use; and
- In the case of liabilities assumed for a consideration, assumption price is more relevant when assumption price is higher than both cost of fulfillment and cost of release.

Market Value

Market value for liabilities is *the amount for which a liability could be settled between knowledgeable, willing parties in an arm's length transaction.*

The advantages and disadvantages of market value for liabilities are the same as those for assets. Such a measurement basis may be appropriate, for example, where the liability is attributable to changes in a specified rate, price or index quoted in an open, active and orderly market. However, in cases where the ability to transfer a liability is restricted and the terms on which such a transfer might be made are unclear the case for market values, even if they exist, is significantly weaker. This is particularly the case for liabilities arising from obligations in non-exchange transactions, because it is unlikely that there will be an open, active and orderly market for such liabilities.

Cost of Release

"Cost of release" is the term used in the context of liabilities to refer to the same concept as "net selling price" in the context of assets. Cost of release refers to the amount of an immediate exit from the obligation. Cost of release is the amount that either the creditor will accept in settlement of its claim, or a third party would charge to accept the transfer of the liability from the obligor. Where there is more than one way of securing release from the liability, the cost of release is that of the lowest amount—this is consistent with the approach for assets, where net selling price would not reflect the amount that would be received on sale to a scrap dealer, if a higher price could be obtained from sale to a purchaser who would use the asset.

For some liabilities, particularly in the public sector, transfer of a liability is not practically possible and cost of release will therefore be the amount that the creditor will accept in settlement of its claim. This amount will be known if it is specified in the agreement with the creditor—for example, where a contract includes a specific cancellation clause.

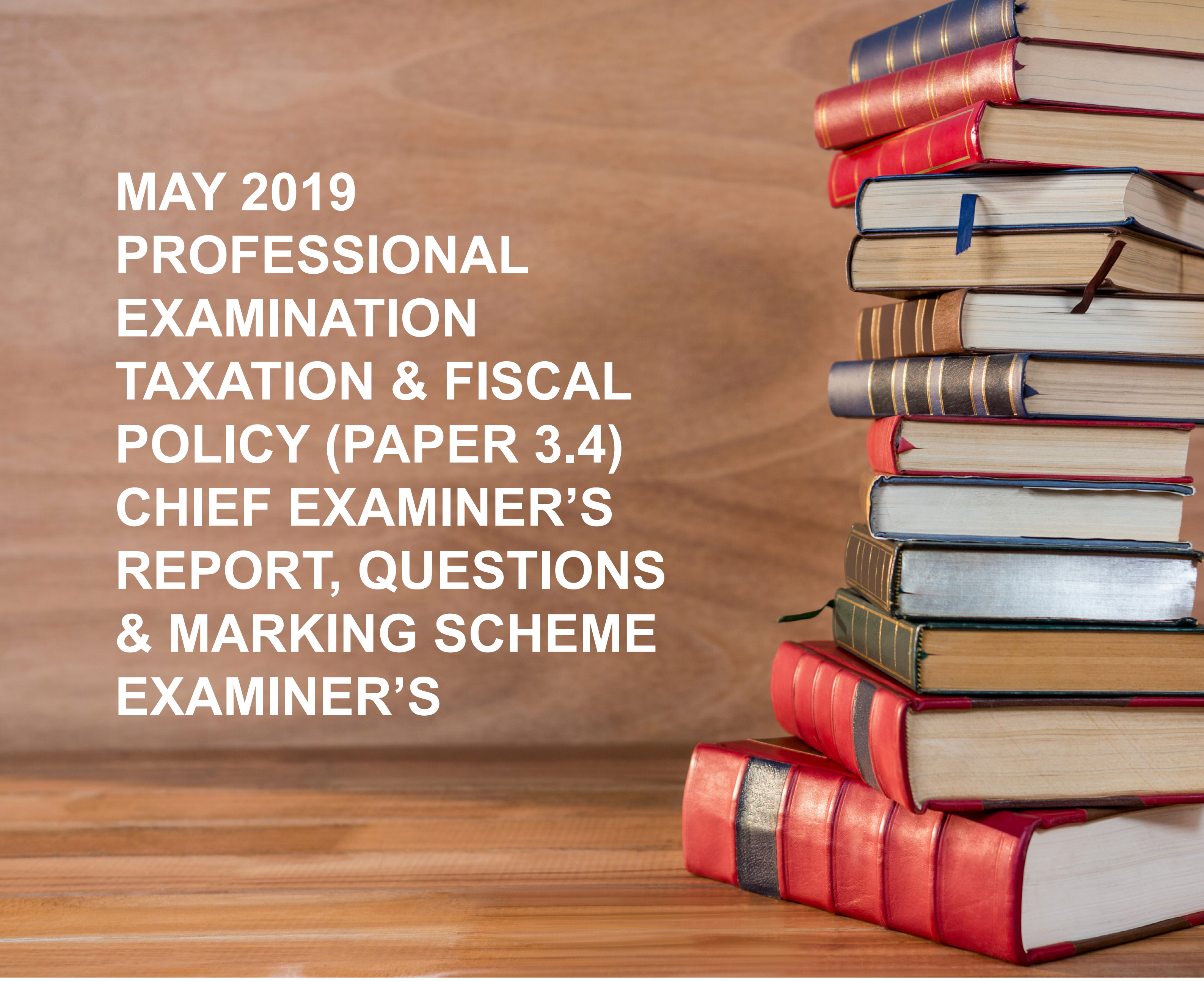
In some cases, there may be evidence of the price at which a liability may be transferred—for example, in the case of some pension liabilities. Transferring a liability may be distinguished from entering into an agreement with another party that will fulfill the entity's obligation or bear all the costs stemming from a liability. For a liability to be transferred it is necessary that all of the creditor's rights against the entity are extinguished. If this is not the effect of an arrangement, the liability remains a liability of the entity.

Assumption Price

"Assumption price" is the term used in the context of liabilities to refer to the same concept as replacement cost for assets. Just as replacement cost represents the amount that an entity would rationally pay to acquire an asset, so assumption price is the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability. Exchange transactions carried out on arms-length terms will provide evidence of assumption price—this is not the case for non-exchange transactions.

In the context of an activity that is carried out with a view to profit, an entity will assume a liability only if the amount it is paid to assume the liability is greater than the cost of fulfillment or release— i.e., the settlement amount. Once that assumption price has been received by the entity, the entity has an obligation to its creditor.

At the time a liability is first incurred in an exchange transaction, assumption price represents the amount that was accepted by the entity for assuming the liability—it is therefore usually reasonable to assume that assumption price is the price that the entity would rationally accept for assuming a similar liability. It would charge a higher amount, if competitive pressures allowed it to do so, but it might be unwilling to accept a lower price. Just as replacement cost is a current value so, conceptually, is assumption price. There are, however, practical problems in reflecting changes in prices in obligations that are stated at assumption price.



MAY 2019 PROFESSIONAL EXAMINATION TAXATION & FISCAL POLICY (PAPER 3.4) CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME EXAMINER'S

GENERAL COMMENTS

The Taxation and Fiscal Policy Paper was very clear as to the requirement of answers demanded from students. The quality of the paper was very commendable. The spread of the questions across the entire spectrum of the syllabus was also quite commendable and demonstrated that -- The Institute of Chartered Accountants (Ghana) is committed to quality standard in its examination processes. Any serious student who applied a little effort could pass the paper easily. The reverse is true. Given the spread and the appropriate level of difficulty of the paper, the expectation should have been an impressive performance but that did not happen as some students gave the examiners cause to think that the preparation towards the examination was inadequate.

The Institute should continue to maintain standards in the setting of the examination questions. The paper was designed to help an average student be able to pass the examination easily. The marks allocated are proportionate to the level of difficulty and the standard of question known for this kind of paper. A good student who prepared adequately for this paper was sure to pass and pass well. The paper took note of the level of students and its appropriateness for the final level. What was remarkable for me is that the paper was properly strewn across the entire syllabus so as not to disadvantage any serious and focused candidate. The standard of the paper was very good and followed normal pattern. The type setting of the paper was quite good and made reading very easy. The clarity of the questions was impressive and did not leave any one in doubt as to the requirement of the questions.

Standard Of Paper

The standard of the paper was high, appropriate and applicable to the final level paper and comparable to any final level professional taxation paper anywhere across the globe. Over the years, the Taxation and Fiscal Policy Paper has maintained the high standard depicting a final level paper of a comparable standard much to the admiration of the Examiners (Script Markers). The questions were properly selected to ensure that an average student who prepared well was sure to pass. On the flipside, a lazy student who selected few areas of the syllabus to study was sure to perform poorly. The marks allocated for each question was very appropriate as the marks took account of the level of difficulty of the questions and the demands of the Institute from students.

Performance Of Candidates

The performance of candidates followed the usual pattern. Students who prepared well gave good account of themselves and got the pass mark. As fate would have it, some candidates also as usual demonstrated ill-preparedness largely and failed to make the pass mark. It must be noted that, those who failed to make the pass mark clearly were unprepared for the paper but perhaps decided to give the paper a shot hoping that things would go their way. It is obvious that lack of preparation would spell doom for any student in the examination. This is a professional paper and students must demonstrate professional knowledge in the answers as part of the requirement to enable them pass and not to approach the examination with perfunctory attitude. On the whole, those who wanted to pass, gave good account of themselves and made it and others who did not prepare well had to struggle and this reflected in their answers.

Notable Strenghts And Weaknesses

Some few students demonstrated impressive knowledge and preparedness and gave good account of themselves. Others obviously just added to the number. Their performance did not come to scratch at all. The detailed performance to help improvement on the paper can be appreciated under the detailed analyses of question by question below. The questions selected were the normal questions from within the syllabus and selected on account of the grid in the syllabus students are familiar with. This approach to say the least has always been to help an average student pass the examination easily with modicum of effort. As has always been the case, some students demonstrated command over the topics but clearly others showed lack of adequate preparation and this might have accounted for their inability to make impressive marks everyone would have hoped for.

Candidates' ability to pass the Taxation and Fiscal Policy paper continues to be hinged on adequate preparation and reading the right tax materials such as the tax laws and regulation and reading manuals. The poor writing skills continue to surface in the write up of students. The Institute should as a matter of urgency work hard to correct this unfortunate phenomenon that has placed impediments in the efforts of students. Most of them are unable to convey their thoughts properly even though they may have their good thoughts worth noting. The Institute should introduce a lot of memo and report writings to help create in them reading habits and consequently improve the writing skills. Every examiner continues to comment on this poor grammatical display of students making marking very difficult and a nightmare.

Tuition providers should continue to drum home this important issue - good writing skills. Students should also as a matter of urgency try to work on this important part of their lives to make things better for them. Reading of books, novels and other materials should continue to engage students to broaden their vocabulary range and improve ability to write well. Another important area worth noting is the handwriting of some candidates. Some students write illegibly making marking quite a nightmare and difficult. This obviously slows down marking. Students should learn to write clearly and legibly to avoid losing marks unconsciously from the inability to read out well and award the appropriate marks by the examiners. It must be noted that Examiners do well to ensure they are able to read every paper of every candidate to enable them award appropriate marks but students must help the process.

Another area of concern which is gradually becoming part of the system is the way questions are answered. Some candidates answered two different questions on the same page as though they were related and should be answered together. Each question should be answered on a fresh paper and properly labelled. This clearly will enhance proper presentation and help examiners mark easily. Note: Each question should be answered on a fresh paper. Another important weakness that is gradually emerging is the lack of comprehension of questions before answering the question. Students are encouraged to read the requirement of the questions if possible before reading the question itself so as to underline critical information that would help in moulding the answers.

On the whole I must say that there is incremental improvement and so long as students read the examiners' report, past questions and pledge to go by them, success shall always crown their effort. For better appreciation of the issues raised above, a detailed analysis of each of the question would be helpful.

Question One

a) Management of Kwame Enterprise Ltd considers increasing its stated capital by transferring GH¢600,000 from Income Surplus in 2019 year of assessment in its bid to expand its business horizon in future. The management of the company intends to consult widely on the taxability, if any, on this line of action.

Required:
Assess the tax implication of this funding arrangement by Management of Kwame Enterprise Ltd. **(3 marks)**

b) Kofiga Kwame is 64 years old and has never worked as a salaried staff. He intends taking up an appointment with a Civil Society Organization called "We Care" because of his stance on anti-corruption. He approaches you to advise on his willingness to contribute towards Social Security and National Insurance Trust (SSNIT) of 5.5% and also 10% towards Voluntary Provident Fund (Tier 3) with an approved fund manager. It is hoped that his prospective employer would contribute 13% and 6.5% towards SSNIT and Tier 3 respectively to enhance his benefits when he retires from active employment at age 70.

Required:
Determine the tax implication on the impending contribution towards SSNIT and Voluntary Provident Fund by Kofiga Kwame and those of the prospective employer and the relief, if any, he stands to gain from the above. **(4 marks)**

c) As part of efficient tax administration, taxpayers have been segmented into Large Taxpayers, Medium Taxpayers and Small Taxpayers by the Ghana Revenue Authority. In the view of tax reformers, tax payer segmentation is the way to go in order to grow revenue.

Required:
What purpose does this segmentation seek to achieve? **(4 marks)**

d) Some political analysts have often made the claim that governments over the world should create enabling environment for private businesses to flourish including granting tax incentives as a way of creating jobs for the unemployed youth and that governments should not directly engage in business. They sum this up often with the statement that "Government has no business doing business". Others, however, hold contrary view on this matter making this an endless debate.

Required:
Under what circumstance would you encourage the running of state enterprises as business entities by Government to increase revenue as against imposition of new taxes for the same purpose?

e) Public debt is an important source of revenue for a government to finance public spending where taxation capacity may be limited, or when the alternative would be to print money and compromise macroeconomic stability. There are however, negative consequences of high public debt on the economy.

Required:
Evaluate FOUR (4) of such negative consequences of public debt on the economy of Ghana.
(4 marks) **(Total: 20 marks)**

QUESTION TWO

a) Agyemang Boateng has been working with Intellect Consult Limited (ICL) since 2010. At the beginning of January 2016, he was seconded to Accra Metropolitan Assembly (AMA) for a period of six months to be part of a team to spearhead a restructuring exercise and the review of the system of internal controls at the Revenue department of AMA. Terms of the AMA engagement ICL was to be paid a one-off settlement of GH¢10,000 at the completion of the engagement as well as reimbursement of monthly operational expenses incurred based on submission of the relevant invoices. Agyemang's only entitlements from AMA were the following monthly allowances:

	GH¢
Inconvenience Allowance	300
Extra Duties Allowance	200

Agyemang's secondment to AMA did not in any way affect his salary and other entitlements from his employer, ICL, as these continued to accrue to him during the period of the secondment. Agyemang's earnings and entitlements from ICL for the year of assessment ended 31 December 2016 is as seen below:

	GH¢
Basic Salary	46,000
Bonus	9,500
Fuel allowance	1,750
Entertainment allowance	7,500

Additional information
• Agyemang stays in a fully furnished ICL bungalow at East Legon in Accra. ICL charges him a rent of GH¢150 per month. • Agyemang makes use of ICL's company vehicle, driver and fuel for official use only. • On 1 January 2016, Agyemang successfully applied for a GH¢10,000 loan from his employer, ICL. His employer charged him interest of 2% per annum on the loan. During this period, Bank of Ghana policy rate was 15%. The loan was repayable within ten months. • On 1 October 2016, Agyemang commenced part-time lecturing in Accounting at a local private Senior High School. He was paid monthly for his services and the total amount received for the three months ended 31 December 2016 was GH¢5,000 gross. Agyemang's other non-employment related income received during the year ended 31 December 2016 were:

	GH¢
Net royalties received for his Accounting text book	21,250
Gross local company dividends (Unquoted Company shares)	13,000
Interest on Bank deposits from local financial institutions	10,000
Gross lottery winnings	12,000

Required:
i) Calculate Agyemang's taxable income for the year ended 31 December 2016. **(10 marks)**
ii) State AMA's tax obligation when making the disbursement of GH¢10,000 to ICL. **(1 mark)**
iii) What are the tax implications to Agyemang with respect to the following: • Part-time lecturing, • Royalty, • Dividends, and • Interest on bank deposit. **(2 marks)**

iv) What is the tax implication of the loan
taken by Agyemang? **(1 mark)**

b) Section 7(m) of the Income Tax Act, 2015 (Act 896) as amended indicates that 'the income of an individual from employment in the public service of the government of a foreign country in Ghana is exempt from tax'.

Required:
Identify FOUR (4) conditions for granting such an exemption. (2 marks)

c) Section 8(2) of the Income Tax Act, 2015 (Act 896) as amended provides that the Commissioner-General shall not allow a deduction in respect of domestic or excluded expenditure incurred by a person in the computation of assessable income of the person. Required:
i) What constitute domestic expenditure? (2 marks)
ii) What constitute excluded expenditure? (2 marks) (Total: 20 marks)

QUESTION THREE

a) Anthony purchased a house in Koforidua at a cost of GH¢480,000 in the year 2011. In 2011, he spent GH¢24,000 to repair and renovate the house. In March 2018, he spent extra GH¢18,000 on renovation with the intention to sell the house. Anthony engaged a Valuer in June 2018, to value the building and the Valuer charged GH¢5,400. In July 2018, he placed an advert on 'Zuria FM' for the sale of the building and paid GH¢1,800. During the same period, he sold the house through an agent for GH¢660,000 to Kwame Burger and the agent's commission was 3% of the sale value. Anthony also paid GH¢1,500 for stamp duty and legal permit for conveyance of the building to Kwame Burger.

Required:
I. Compute any tax payable. (4 marks)
II. What constitutes realisation of capital assets? (2 marks)

b) At a tax seminar organised by The Institute of Chartered Accountants (Ghana) in December 2016, the issue of tax implications for finance lease arrangement dominated the discussion. The facilitator said that both the lessor and the lessee shall be denied capital allowance under the tax law. The facilitator intimated that capital allowance is granted to persons who acquire assets and own them and use such to generate business income. Both the lessor and the lessee, consequently do not qualify for capital allowance under the Income Tax Act (Act 896), 2015 and its regulations, he added.

Required:
As a tax advisor, submit a response to the above based on the tax provisions. The response is to be published in the Institute's Journal. (7 marks)

c) Your senior brother has stayed in the United Kingdom for more than 20 years and would like to return to Ghana and establish a business. He is confused as to which area to invest to maximise the benefits from tax planning. He has been told that you are undertaking a course in Taxation and would like to have your explanation and the tax benefits if any from investing in the following areas:
i) Farming (2 marks)
ii) Agro-Processing Business (2 marks)

d) Section 18 of the Revenue Administration Act 2016 (Act 915) makes provision for the use of Tax Consultant by a tax payer.

Required:
Examine THREE (3) ethical and professional issues that a tax consultant may consider in dealing with a tax payer. **(3 marks)** **(Total: 20 marks)**

QUESTION FOUR

a) Where required by law, all individuals and entities must file their tax returns on due dates, signed by the individual or authorised manager of an entity, and shall have a declaration to the effect that the return is complete and accurate.

Required:

i) Under what circumstances would the Commissioner-General of Ghana Revenue Authority may, by notice, require a person to file a tax return before the due date for filing of tax returns? **(4 marks)**
ii) What are the powers of the Commissioner-General, if a taxpayer fails to file tax return on time? **(3 marks)**
b) The Commissioner-General may, in the exercise of his powers, audit the tax affairs of a person.

Required:

Identify THREE (3) factors considered for selecting a person for audit. (3 marks)
c) Explain the following terms used under Value Added Tax (VAT) administration and provide TWO (2) examples under each term.
i) Taxable activity **(2 marks)**
ii) Exempt supply **(2 marks)**
iii) Relief Supply **(2 marks)**
iv) Zero-rated supply **(2 marks)**
d) State the general rule on registration for VAT. **(2 marks)** **(Total: 20 marks)**

QUESTION FIVE

a)Kaato Mining Company Ltd (Kaato) has been operating in the mining sector for some time now. The following data is relevant to the company's operations for 2017 year of assessment.

	GH¢
Adjusted profit	100,000,000

The following additional information is relevant:

- Financial cost of GH¢900,000 inclusive interest on working capital loan of GH¢20,000 was adjusted in arriving at the adjusted profit.
- Financial gain from derivatives of GH¢600,000 was adjusted in arriving at the adjusted profit above.
- Depreciation of GH¢125,000 was adjusted to the profit above.
- Written down value brought forward from 2016 after 1 year capital allowance was granted stood at GH¢1,000,000. This was accordingly certified by the Audit Unit of the Ghana Revenue Authority.
- Revenue of GH¢1,200,000,000 was realized on a quantity of gold production of 80,000,000 ounces. A review of the tax returns of Kaato Ltd revealed that Mineral Royalty was not calculated for 2017. Kaato applied for a waiver of penalty and interest on the mineral royalty to which GRA obliged.

Required:

I. Compute the taxes payable. (6 marks)
II. What is the tax treatment of financial cost under mineral operations? (2 marks)
b) The following relates to Ablorh Ltd from petroleum operations relating to 2017 year of assessment. Production (in barrels) 100,000,000 Selling Price per barrel ($) 100 Production cost per barrel ($) 50 Capital allowance agreed ($) 800,000

Required:

I. Compute the royalty payable to the Government of Ghana by Ablorh Ltd and state the tax implication of production cost on Royalty. (5 marks)
II. Explain THREE (3) relevance of initial interest of Government in the Upstream Petroleum Operations. (3 marks)
c) A company engages in exports of non-traditional products and makes local sales of its products. It has as recently, as of 2018 recorded huge loss on the exports but makes gains on the local sales and intends to offset the loss against the profit from the local sales as both represent its business activities.

Required:
Evaluate the above statement critically in the light of the tax provisions and its effect if any on revenue. (4 marks) (Total: 20 marks)

SOLUTIONS TO QUESTIONS

QUESTION ONE

a) The Management of Kwame Enterprise Limited's proposal to increase its stated capital will have to be given a legal effect. This arrangement therefore will require a payment of stamp duty. The stamp duty which is a direct tax is calculated at the rate of 0.5% of the amount of stated capital. In this case, the amount of stamp duty is (0.5% x 600,000) = GH¢3,000.00 The transfer from income surplus shall be treated as dividend with withholding tax at the rate of 8% imposed on the transfer. Management of Kwame Enterprise Ltd shall pay an amount of three thousand Ghana cedis as stamp duty to Ghana Revenue Authority through the Registrar General Department before the proposed transaction will take legal effect and an amount of forty eight thousand as dividend withholding tax. (3 marks)

b)

- Kofiga Kwame is sixty four (64) years of age which is above the 60 years retirement age and by law cannot contribute to social security and the tier three (3) pension funds as he proposes
- Additionally, if the prospective employer pays the 13% and 6.5% contribution to SSNIT and Voluntary Provident Fund respectively on his behalf, they will be added to Kofiga Kwame's employment income and assessed to tax accordingly.
- There is no tax benefit to him on account of his contribution to the SSNIT and Voluntary Provident Fund as an individual.
- Kofiga Kwame would, however, be given an old age relief of GH¢ 200.00 per annum as a benefit which will be used to reduce his tax burden and other reliefs such as marriage, children education, disability, old age dependency and mortgage as the case may be.
- The prospective employer after adding contributions to the SSNIT and Voluntary Provident Fund to Kofiga Kwame's salary shall be allowed as a deduction of such if it were a tax paying entity.
  (Any 4 points for 4 marks)

c) Taxpayers are categorized into segments. Large Taxpayers, Medium Taxpayers and Small Taxpayers.

- The purpose of the segmentation of taxpayers is to allow the Ghana Revenue Authority cater for the specific need of taxpayers within each segment.
- Large taxpayers may have specific issues which may not be relevant to other segments and the reverse is true of the others.
- It will help tax administration to segment them and deal with them according to their needs and help them grow.
- All taxpayers will be accounted for as each segment will concentrate on its area. **(4 points for 4 marks)**

d) Government raises revenue from taxes and non-tax sources. Taxes may be direct or indirect. There is a limit to how much government can raise from taxes. Imposition of new taxes can raise needed revenue for government to support government projects but a dangerous tool in creating some challenges for government and make the government unpopular. Government could consider running state enterprises on business lines on the following grounds:

- Taxes are the function of economic performance. When an economy is not doing well, imposition of taxes cannot generate any income for projects.
- It is in view of this that others suggest that government could take up the running of some key institutions to create employment for the citizenry and to support government projects.
- Also the running of enterprises by the State will help provide goods for the common good of society and charge subsidized rates to help the lower income brackets and raise money to support government projects.
- The profits the institutions will make can be used to support government projects.
- In conclusion, government can run state institutions as a way of supporting governments rather than relying on taxes as the only source of funding with its terrible consequences. (**5 points for 5 marks)**

e) Negative Consequences of Public Debt The consequences considered are enumerated as follows:

- **The Tax Burden:** When the government borrows money from its own citizens, it has to pay interest on such debt. Interest is paid by imposing tax on people. If people are required to pay more taxes simply because the government has to pay interest on debt, there is likely to be adverse effects on incentives to work and to save. It may be a happy coincidence if the same individual were tax-payer and a bond-holder at the same time. But even in this case one cannot avoid the distorting effects on incentives that are inescapably present in the case of any taxes. If the government imposes additional tax on Mr. X to pay him interest, he might work less and save less. Either of the outcome — or both — must be reckoned a distortion from efficiency and wellbeing. Moreover, if most bondholders are rich people and most tax-payers are people of modest means repaying the debt money redistributes income (welfare) from the poor to the rich.

- **Higher Interest Rates:** The government depends on investors' continuous purchase of Government of Ghana long-term bonds to fund its spending. If the bond market gets nervous Page 12 of 26 about the excessive borrowing of the government as a result of the high default risk and the demand for the government's bonds falls, their price also declines as a result. The fall in the price will cause the yield on the bond to rise. This means the nation pays more in interest for every cedi borrowed. When the government borrows more from the domestic market through sale of treasury bills it increases the interest rates paid on them and this risk-free interest rate forms the basis for borrowing cost.

- **Stifling Economic:** Growth If the government borrows money from the people by selling bonds, there is diversion of society's limited capital from the productive private to unproductive public sector. The shortage of capital in the private sector will push up the rate of interest. In fact, while selling bonds, the government competes for borrowed funds in financial markets, driving up interest rates for all borrowers. With the large deficits of recent years, many economists have been concerned in the competition for funds; also higher interest rates have discouraged borrowing for private investment, an effect known as crowding out. This, in its turn, will lead to fall in the rate of growth of the economy. So, decline in living standards is inevitable. This seems to be the most serious consequence of a large public debt. As Paul Samuelson has put it: "Perhaps the most serious consequence of a large public debt is that it displaces capital from the nation's stock of wealth. As a result, the pace of economic growth slows and future living standards will decline."

- **Negative effect on long term investment:** Raising taxes or ramping up inflation to deal with the debt both have a negative impact on investors' willingness to invest. High levels of public debt also call into question whether the debt will be repaid in full. That can lead to a higher risk premium, and that's associated with higher long-term real interest rates, which in turn has negative implications for investment as well as for consumption of durables and other interest-sensitive sectors, such as housing.

- **Public Debt reduces society's consumption possibilities:** When a country borrows money from other countries (or foreigners) an external debt is created. It owes its all to others. When a country borrows money from others it has to pay interest on such debt along with the principal. This payment is to be made in foreign exchange (or in gold). If the debtor nation does not have sufficient stock of foreign exchange (accumulated in the past) it will be forced to export its goods to the creditor nation. To be able to export goods a debtor nation has to generate sufficient exportable surplus by curtailing its domestic consumption. Thus, an external debt reduces society's consumption possibilities since it involves a net subtraction from the resources available to people in the debtor nation to meet their current consumption needs.

- **Public Debt and Growth:** By diverting society's limited capital from productive private to unproductive public sector public debt acts as a growth-retarding factor. Thus an economy grows much faster without public debt than with debt. When we consider all the effects of government debt on the economy, we observe that a large public debt can be detrimental to long-run economic growth. What is more serious is that an increase in external debt lowers national income and raises the proportion of GNP that has to be set aside every year for servicing the external debt. This seems to be the most important point about the long-run impact of huge amount of public debt on economic growth. To conclude with Paul Samuelson and W. D. Nordhaus: "A large government debt tends to reduce a nation's growth in potential output because it displaces private capital, increases the inefficiency from taxation, and forces a nation to service the external portion of the debt." **(4 points well explained for 4 marks) (Total: 20 marks)**

EXAMINER'S COMMENTS

c. This question examined students on the implication of transfer from income surplus to stated capital account. This is a common accounting practice and is also a popular question with students. It required students to indicate that such arrangement is treated as deemed dividend and required a payment of 8% on the amount transferred as withholding tax on dividend and also a stamp duty of 0.5% by that arrangement to give legal effect to the transfer. Familiar as this question was, the outcome in response to the question was shocking. Some few examples will suffice here: A particular student indicated that "income tax exempts private university". It was a clear case of resetting one's question and answering it based on the person's prepared answer, because the question posed had nothing to do with a private university. One other student indicated that "such transfers were criminal". How would a transfer to stated capital be criminal? Meanwhile, this student was taught or learnt company's account were ledgers were prepared to give effect to this arrangement. Yet one other student said that the "dividend will be added to income and taxed at a graduated tax rate." Another bizarre expression by one student had it that by that arrangement, "thin capitalization should be used". The above examples of answers submitted by some students in response to transfer into stated capital are enough reason to conclude that a lot of them do not read and or do not understand what they read very well.

d. This question tested knowledge of students on the tax implication of employees who are in employment after 60 years of age. Quite surprisingly, a lot of students did not understand that an employee aged 60 years or more is entitled to an old age relief and not social security relief and that the payment of 13% by the employer is taxable in the hands of such an employee as income. By law, at 60 years, every employee is obligated to go on pension and cannot contribute towards pension contribution.

e. Students as part of the syllabus are required to study the Act 791 of 2009 establishing the Ghana Revenue Authority and its administration which include the rationale for the segmentation of the tax offices. Some of the students indicated as part of their answers that the rationale for the segmentation was to "give taxpayers different tax rates to pay tax". That position is incorrect. This type of answers belies the principle of taxation that borders on fairness to taxpayers. The reason among others is to give tailor-made service to each category or segment. The segmentation is categorized into: Large Taxpayer Office, Medium Taxpayer Office and Small Taxpayer Office using turnover as a basis for the categorization and also to help deal with each category's unique tax issues to help promote voluntary tax compliance.

f. The question was on the running of State Enterprises as business entities by Government to increase revenue as against imposition of new taxes. This question was a well answered one. Many candidates got the pass mark in this question and others bagged beyond the pass mark.

g. This question was on the negative consequences of public debt. This question was also well answered by all who attempted it. Candidates scored high marks in this question much to the admiration of examiners.

QUESTION TWO

a) Agyemang Boateng
i) Calculation of Taxable Income Y/A 2016 Basis
Period 1/1/2016-31/12/2016

	GH¢	GH¢
Basic Salary		46,000
Add Benefits in cash:		
Bonus 9,500 – (0.15 * 46,000)	2,600	
Fuel Allowance	1,750	
Entertainment Allowance	7,500	11,850
Total Cash Emolument		**57,850**
Add Benefits in Kind:		
Accommodation (10% of 57,850)	5,785	
Less rent (150* GH¢12)	1,800	3,985
		61,835
Other Incomes Royalties (21,250/0.85)		25,000
Inconvenience Allowance (300x6)	1,800	
Extra Duties Allowance (200x6)	1,200	3,000
		89,835
Less: SSF : Employees (5.5% of GH¢46,000)		2,530
Taxable Income		**87,305**

(10 marks evenly spread using ticks)

ii) In the absence of any further details on AMA or ICL being exempt from withholding taxes, AMA is required to withhold 7.5% on the engagement and remit same to GRA on or before the 15th of the month following the month of payment. **(1 mark)**

iii) Tax Implications

- The Part-time teaching would be taxed at 10% which is final and would not be added to Agyemang Boateng's income. **(0.5 mark**)
- The royalty income is taxed at 15% which is on account. This was net and was grossed up and added to the income of Agyemang Boateng. **(0.5 mark)**
- The dividend from the local company shares is taxed at 8% which is final. **(0.5 mark**)
- The interest income on the bank deposit from a local financial institution is tax exempt. **(0.5 mark)**

iv) The loan taken by Agyemang Boateng would not be treated as benefit in kind because:

- The Loan repayment period does not exceed 12 months
- The loan amount of GH¢ 10,000 does not exceed his 3 months basic salary of GH¢46,000/12 * 3 months = GH¢11,500. **(2 points @ 0.5 marks each = 1 mark)**

b) Conditions for granting such an exemption: The income of an individual from employment in the public service of the government of a foreign country is tax exempt where:

- The individual is either a non-resident or resident in the country solely by reason of performing that employment;
- The individual does not exercise any other employment or carry on business in the country; • The income is payable from the public funds of the foreign country; and
- The income is subject to tax in foreign country. **(4 points @ 0.5 marks each = 2 marks)**

c) i) Domestic Expenditure constitutes the following: Where an individual incurs expenditure in respect of that individual; the expenditure is domestic expenditure to the extent that it is incurred:

- In maintaining the individual, including the provision of shelter, meals, refreshment, entertainment or other leisure activities
- By the individual in commuting from home
- In acquiring clothing for the individual, other than clothing that is not suitable for wearing outside of work
- In educating the individual, other than education that is directly relevant to a business conducted by the individual and that does not lead to a degree or diploma. Where another person incurs expenditure in making a payment to or providing any other benefit for an individual, the expenditure is domestic expenditure except to the extent that
- The payment or benefit is included in the calculation of the income of the individual
- The individual provides consideration of an equal market value for the payment or benefit; or
- The amount of the expenditure is so small as to make it unreasonable or administratively impracticable to account. The expenditures as stated above include interest incurred on the amount borrowed that is used as described above. (Any two points above shall go for 2 marks)

ii) Excluded Expenditure constitutes the following:

- Tax payable under Act 896
- 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 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 in line with the Pension Act 2008 Act 766
- Dividends
- Depreciation. Instead, capital allowance is allowed to the person. **(Any two points above shall go for 2 marks) (Total: 20 marks)**

EXAMINER'S COMMENTS

a) This question was on computation of employment income. Some students did so well in this area. Others who had a challenge was that the income earned from AMA by Agyemang Boateng was added in the determination of the total cash emolument. This position is not supported by the tax provision. By this position most students took, the total cash emolument was bloated and consequently influenced wrongly the computation of the accommodation benefit which was a requirement. The income from AMA should be treated as other income and introduced after the total cash emolument had been determined from the main employment.

b) This question which required students to determine condition under which income of an individual from employment in the public service of the government of a foreign country in Ghana is exempt from tax but was unfortunately not well answered. With a little effort, students could have gotten it right if even they never read about it by thinking laterally.

c) This was on the concept "Domestic expenditure and excluded expenditure". This was a pretty much straight forward question. But a good number of students did not appreciate this basic concept underlying deductibility of expenses.

QUESTION THREE

a) i)

ANTHONY
CAPITAL OF TAX ON CAPITAL GAIN

	GH¢	GH¢	GH¢
Consideration			660,000.00

Deduct Cost:
Cost of Acquisition:

	GH¢	GH¢	GH¢
Cost of building		480,000.00	
Repairs and Renovation		24,000.00	
Renovation		18,000.00	
Valuation		5,400.00	
		527,400.00	
Incidental Expenses:			
Adverts	1,800.00		
Legal and Permit	1,500.00		
Commission @3%*660,000	19,800.00	23,100.00	
Total Cost			550,500.00
Gain			109,500.00
Tax Charged @ 15%			16,425

ii) Realisation of Capital Assets:
It is an arrangement where one parts with ownership of a capital asset through
- Sale
- Exchange
- Destruction
- Loss
- Surrender
- Transfer
- Distribution **(4 points @ 0.5 marks each = 2 marks)**

b) FINANCE LEASE ARRANGEMENT

- Finance lease arrangement is an arrangement where a lessor leases or transfers an asset to the lessee in return for a lease rental payment by the lessee. Risk and reward associated with the leased asset is transferred to the lessee. The lease term exceeds 75% of the useful life of the asset.
- Capital allowance is an incentive that is given to a person that acquires a depreciable asset and uses the depreciable asset in generating income for the business. The property under finance lease for accounting purposes is the property of the lessor but for the effect of substance over form, the asset belongs to the lessee for which depreciation is enjoyed and shown in the books of the lessee.
- For capital allowance purposes, the payment of the lease rental payment shall be apportioned between capital repayment and the interest component in accordance with section 31 of the Income Tax Act, 2015 (Act 896) and LI 2244 Regulation 17. The capital repayment shall be subject to capital allowance for the benefit of the lessee and the interest component shall be an allowable deduction for the lessee for tax purpose. In effect, the treatment of capital allowance and depreciation shall be the same except the amount that shall be different. **(Any 2 points for 4 marks)**
- In summary the following shall be the treatment Lessee shall be Granted capital allowance on the principal repayment and the interest shall be allowable deduction. In the case of a vehicle which is not a commercial vehicle, the amount shall be restricted to an amount of GH¢75,000. (1.5 marks) Lessor The lessor shall not be granted capital allowance but may be given granted capital amount to be determined in accordance with guidelines to be issued by the Commissioner-Gen eral. **(1.5 marks)**

C) i) FARMING

- The income of farming activity or business conducted wholly in Ghana shall be subject to tax temporary concessions. The following constitutes farming activities:
- In the case of farming tree crops (i.e. coconut, coffee, oil palm, rubber, and shear nut), income from the business for a period of ten years of assessment commencing from and including the year during which the first harvest of crops occurs
- In the case of farming livestock (excluding cattle), fish or cash crops, income from the business for a period of five years of assessment commencing from and including the year during which the business commences; and
- In the case of farming cattle, income from the business for the period of ten years of assessment commencing from and including the year during which the business commences. The above activities are subject to tax at the rate of 1% during the temporary concessions of each of them when they make income. (4 points @ 0.5 marks = 2 marks)

ii) Agro-business
- The income of a person from an agro processing business conducted wholly in Ghana is subject to tax at the rate of 1% for a period of five years of assessment commencing from and including the year in which commercial production commences.
- Agro processing business means the business of processing crops, fish or livestock produced, caught or raised in Ghana from their raw state into an edible canned or packaged product **(2 points for 2 marks)**

d) As a professional tax adviser, it is absolutely essential that he conducts his affairs at all times following the professional code of ethics.
- Objectivity – Avoid conflicts of interest; not to allow bias, conflict of interest or undue influence of others to override professional or business judgements.
- Professional – Professional behaviour at all times, comply with relevant laws and avoid any action that discredits the profession.
- Technical competence – Keep up to date with new tax rules and legislation. To maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
- Integrity – Must be honest and should not assist clients in committing an offence. To be straightforward and honest in all professional and business relationships
- Confidentiality – Client information should not be disclosed to other parties without the client's permission including Ghana Revenue Authority. The exception to this rule applies if the tax adviser has knowledge or suspicion that a person has committed a money laundering offence. **(3 points well explained for 3 marks)** **(Total: 20 marks)**

EXAMINER'S COMMENTS

a) This question was on taxation of gain on realization of capital asset. This question was well answered. All students got more than fifty percent (50%) of the marks. However, some granted fifty Ghana cedis (GHS50.00) as an exemption threshold. This exemption rule was associated with the old law which has been repealed. Under Act 2015 (Act 896), the exemption is no longer part of the tax provisions and must be avoided. b) The question required understanding of the taxation principle of finance lease. Most students confused capital allowance on finance lease with condition for granting capital allowance. With finance lease, it is only the lessee who is granted capital allowance on the principal repayment with the interest component being an allowable deduction. The lessor may be granted capital amount as capital allowance to be determined by the Commissioner-General.

c) The question was on the tax benefits of farming and Agro-business. While some students bagged impressive marks other students stated variables of tax planning as the solution but did not explain them and linking them to the requirement of the question which was the solution.

QUESTION FOUR a) i) The Commissioner-General may, by notice, require a person to file a tax return if before the date for filing of tax returns

- the person becomes bankrupt, is wound-up or goes into liquidation; or
- the Commissioner-General believes on reasonable grounds that the person is about to leave the country indefinitely; • is otherwise about to cease activity or business in the country; or
- has committed an offence under a tax law; or
- the Commissioner-General considers it appropriate, including where the person fails to maintain adequate documentation **(Any 4 points for 4 marks)**

ii) Where a person fails to file a tax return by the due date required by a tax law

- The Commissioner-General may, appoint another person to prepare and file any information that the Commissioner-General may require, including information required by the return.
- The Commissioner-General shall make an assessment of the tax liability of the person as required by the tax law, including by way of adjusted assessment, and for this purpose may use any information in the possession of the Commissioner General including information obtained above. **(2 points @ 1.5 marks each = 3 marks)**

b) The Commissioner-General may select a person for an audit having regard to

- The history of the person with respect to compliance or noncompliance with tax laws;
- The amount of tax payable by the person;
- The class of business or other activity conducted by the person;
- Criteria developed under a compliance management plan, which may include random selection of returns for audit; or
- Other matters that the Commissioner-General considers relevant for ensuring the collection of tax due. **(Any 3 points for 3 marks)**

c) i) Taxable activity means an activity which is carried on by a person(a) in the country, or (b) partly in the country, whether or not for a monetary profit, that involves or is intended to involve, in whole or in part, the supply of goods or services to another person for consideration (1 mark)

Taxable Activity specifically includes:

- The supply of staff;
- An activity of a local authority or unincorporated association or body that involves, in whole or in part, the supply of goods or services to another person for consideration
- The processing of data or supply of information or similar service;
- The making of gifts or loans of goods;
- The leasing or letting of goods on hire;
- The appropriation of goods or services for personal use or consumption by the taxable person or by any other person;
- The sale, transfer, assignment or licensing of patents, copyrights, trademarks, computer software and other proprietary information;
- The export of non-traditional products **(Any 2 points @ 0.5 mark each = 1 mark)**

ii) The supply of goods and services is exempt supply when there is NO VAT charged. (1 mark)

These are:

- Accommodation at schools and hospitals
- A supply of the following agricultural and aquatic food products in a raw state produced in the country. A supply of the following live animals bred or raised in this country: (a) cattle; (b) sheep; (c) goat; (d) swine; and (e) poultry.
- A supply of water, excluding water commonly supplied in bottles or other packaging suitable for supply to consumers
- A supply of laboratory and library equipment for use in rendering educational services.
- A supply of medical services and medical supplies. (Any 2 points @ 0.5 mark each = 1 mark)

iii) A supply is said to be a relief supply if the transaction is taxable under normal rules but the status of the taxpayer makes it effectively zero- rated that is not taxed when being sold. (1 mark) The beneficiaries of relief under the law include:

- The President of the Republic of Ghana
- For the use of any Commonwealth or Foreign Embassies and Missions or consulate
- Emergency Relief items approved by Parliament

- Other International Agencies subjects to Agreement with the Government of Ghana.
- A supply for the use of a permanent member of the Diplomatic Service of any Commonwealth or foreign country that is exempted by Parliament from the payment of customs duties. (Any 2 points @ 0.5 mark each = 1 mark)

iv) This refers to the supply of goods and services whose output tax is zero. (1 mark)
Examples of zero rated items:

- A supply of services directly in connection with land or any improvement to land situated outside the country. • A supply of services directly in respect of personal property situated outside the country at the time the services are rendered.
- supply of services to the extent that the services are consumed elsewhere than in the country.
- A supply of freight and insurance directly attributable to the export of goods.
- A supply of goods where the Commissioner-General is satisfied that the goods have been exported from the country by the supplier without having been used in the country after the supply was entered, except as necessary for or incidental to, the export of the goods.
- supply of goods under a rental agreement, charter party or agreement for chartering, where the goods are used exclusively in an export country. **(Any 2 points @ 0.5 mark each = 1 mark)**

d) A person who is engaged in a taxable activity and is not registered for tax purposes shall register if:

- At the end of any period of twelve or less months, the person made, during that period, taxable supplies exceeding two hundred thousand Ghana Cedis; or
- At the end of any month, there are reasonable grounds to expect that that person will make taxable supplies in the next twelve or less months exceeding two hundred thousand Ghana Cedis or a period of three months or less, the taxable supplies will exceed fifty thousand Ghana cedis or at the end of any month, there are reasonable grounds that it will exceed fifty thousand Ghana cedis in three-month period or less. **(Any 2 points @ 0.5 mark each = 1 mark)** **(Total: 20 marks)**

EXAMINER'S COMMENTS

a) This question was on Filing of tax returns which is a very common topic as the Ghana Revenue Authority discusses every time. Students should take interest in listening to the media on discussion of tax matters to broaden their understanding on tax matters and get them to be current. The Commissioner General has the powers to appoint another person to file tax returns on behalf of a taxpayer who has failed to file their tax returns.
b) This area was on the basis of selection of tax payers for audit. Some few students interpreted it to mean qualities of a good auditor. This clearly means that such students did not read the question well despite the fact that the question conveyed clarity beyond measure.
c) This question was on Value Added Tax (VAT). It was a straight forward one. Most students did a good job on it. Others appeared not to have read anything on value added tax and as a result performed badly. Students should be encouraged to learn the value added taxation as well to enable them solve questions on VAT easily.
d) The rule on registration was also a very familiar area. A lot of students did a good job on it and bagged the needed marks. On the whole, it was well answered. Thumps up for a good work done on this question.

QUESTION FIVE

a) i) **KAATO MINING COMPANY LTD**
COMPUTATION OF TAX PAYABLE

Y/A 2017
Basis Period 1/1/2017-31/12/2017

	GH¢	GH¢
Adjusted Profit		100,000,000
Deduct:		
Financial Gain	600,000	
Royalty	60,000,000	60,600,000
		39,400,000
Add Back:		

Financial Cost (900,000-20,000)	880,000	
Depreciation	125,000	1,005,000
		40,405,000
Capital Allowance (1,000,000/4)		250,000
Chargeable Income		40,155,000
Tax Charged @ 35%		14,054,250

(6 marks evenly spread using ticks)

ii) Treatment of financial cost Under mining, any financial cost shall be used against financial gain. Any financial cost remaining shall be carried forward for the next five (5) years. If there is no financial gain, financial cost shall be carried forward. **(2 marks)**

b) i) Royalty payable to Ghana Government by X ltd is calculated as follows:
Rate of Royalty 5%
Production 100,000,000
Royalty Payable to Government: 5%x100,000,000= 5,000,000 barrels

The Royalty of government is taken in kind and GNPC sells it on behalf of Government.
(3 marks)

Tax Implication of Production Cost on Royalty
As per the petroleum taxation, Government takes Royalty without paying anything towards any cost. The Royalty of 5,000,000 in barrels are without any cost to Ghana Government.
(2 marks)

ii) Relevance of the Initial Interest of Government in the Upstream Petroleum Operations
- Initial Interest of Government is the equity of government in the petroleum operations that entitles the government to the production of the oil. Government is being carried in this arrangement, meaning, government is carried through exploration and development costs. Government only pays in respect of production cost relative to its interest.
- The relevance of the initial interest is that if there is no production, government does not suffer anything as its payment is only in respect of production cost.
- Additionally, the greater part of the cost is from exploration to development, which government does not contribute towards. Getting in is therefore getting much with less cost.

(3 points for 3 marks)

c)
- Act 896 requires that income for tax purposes is determined separately. Under section 17 of Act 896, businesses are required to determine business income and investment loss separately and so is business income that is subject to a higher tax rate from losses on a lower tax rate if it were a profit would have been taxed at a lower rate.
- In the case of losses from a lower rate if it were a profit will be taxed at lower rate, should be carried forward and deducted from income on the lower rate and should not be used to offset against income/profit from that which should be taxed at a higher rate.
- Export of non-traditional products is taxed at the rate of 8% whereas the local sales shall be taxed at the rate of 25%. Losses on the exports of non-traditional products shall be carried forward against income in the same exports.
- The effect of this is that, taxes on the higher rate will be reduced when the loss on the lower rate is applied. This will lead to loss in revenue. **(4 points for 4 marks) (Total: 20 marks)**

EXAMINER'S COMMENTS

a) Few students appeared not to have any knowledge of the treatment of financial cost from derivatives and financial gain. Some also answered the question by applying the general principle on the tax treatment of financial cost by computing 50% of chargeable income and added financial gain to arrive at the limit on financial cost. That manner of computation is the general one under section 16 of Act 896. Mining and mineral, and petroleum operations have unique provisions which are specific. It requires that financial cost from derivatives be matched against financial gain from derivatives. If the cost is high, the excess financial cost shall be carried forward for the next five years and if the financial gain is high, the excess should be added to revenue. If there is financial gain without any financial cost from derivatives, the gain should be added to income. Some solved the question without indicating title to the question. Others also left out the year of assessment and the basis period. Some also left out the currency signs. These are important part of taxation and must be provided in solving any computational question.

b) This area was on oil and gas taxation and tested Students on the relevance of carried interest as part of revenue stream. Quite surprisingly, question on carried interest had been tested in the time past before. Most of the students did not understand the carried interest and consequently, could not provide the relevance of the carried interest (initial interest) of government. The initial interest allows government to participate in the upstream petroleum operations through GNPC. This allows government to share in the production and only pay towards production cost only proportionate to its interest. The computation of royalty was also a challenge. Royalty is computed on production (volume) and not on revenue. It is in mining and mineral sector that the computation of royalty is done on the basis of revenue.

c) This area tested students on the rule on how business income that is required to be taxed at a high rate of a person should relate to a business loss of the same person that if it were a profit would be taxed at a lower rate. Under section 17 of Act 896, losses from business which if it were profit would be taxed at a lower profit, cannot be deducted from a business income with a high tax rate. Some students did not understand this rule well and created the impression that it was possible to deduct same and consequently lost marks for that.

CONCLUSION

In conclusion, students can always perform better if they stick to the right books and materials with the syllabus serving as a guide and also commit themselves to their studies. We commend students who gave good account of themselves in the examination while we earnestly plead with those who have not made it that all is not lost, they would pass but they should put in a lot more effort. What this means is that if students prepare themselves well for the examination, they will pass. Prospective students should as a matter of urgency put in some effort to enable them pass the examination which is not out of their reach. Tuition Providers/Centres should help students in the application of relevant tax laws to questions. They should give exercises if possible and try and mark the exercises in order to help correct some of the lapses they may come out from the exercises. Students should continue to work hard and improve the pass rate.

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INTEGRITY