

The Institute Of Chartered Accountants
(Ghana)

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**THE INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)**



STUDENTS' JOURNAL - JUNE 2014

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1.0 ICAG

NEWS TITBITS

1.1

ICAG ELECTS NEW COUNCIL

PRESIDENT

The Institute of Chartered Accountants, Ghana have elected Professor Kwame Boasiako Omane-Antwi as its 26th president for 2014 - 2016. His investiture took place at the sideline of the Awards Dinner organised by ICAG to climax its activities to mark its 50th anniversary celebrations at the Accra Conference Centre on the 17th of May 2014. Other elected members are: Mr. Christian Sottie as Vice-President, with Dr. Williams Atuilik, Prof. Kwame Adom Frimpong, Mrs. Angela Peasah, Mr. Kwasi Asante, Ms. Rebecca Lomo as members.

PROFESSOR KWAME

BOASIAKO OMANE – ANTWI

BRIEF PROFILE

A member of the Institute of Chartered Accountants (Ghana), (1981). Kwame has been a university teacher for the past thirty-three years. Since 1979, he has followed a career path rich in diversity, with experience in education, industry, commerce and public practice in Ghana, Liberia, UK and USA. He was trained by

PKF (Pannell Kerr Forster), Chartered Accountants International. In 1986, he trained as a university teacher in the one year International Teachers' Programme (ITP) of Harvard University, USA.

Kwame holds a PhD in Accounting, Professional Doctorate in Taxation, MA in Accounting Education, and MBA in Information Technology, among others. He holds professional membership of various professional bodies including Institute of Directors (both UK and Ghana), Association of Certified Fraud Examiners, USA, Institute of Management Information System, UK, Information Systems Audit and Control Association (ISACA) USA, to mention a few.



He has attended a number of executive education programmes including Corporate Financial Management (Harvard Business School, 1993); Leadership, Decision and Negotiations (Yale School of Management, Yale University, 1995) Management of Higher Education Institutions (Hebrew University of Jerusalem, Israel, 2007)

He is an alumnus of Oxford Business School, Green Templeton College, University of Oxford (Oxonian Number 10097277), United Kingdom. He has eight (8) textbooks, forty-three (43) journal articles, one hundred and six (106) conference papers and other publications to his credit.

He chairs the board of Pentecost Hospital, New Times Corporation, Diamond Capital and Almond Institute; as well as board membership of Millennium Insurance Company, Abii National, Jubail Specialist Hospital, National Accreditation Board and KAAF University College.

Prof. Omane-Antwi has consulted for international organisations on alternative livelihood projects including the World Bank, DFID, Golden Star Resources and FMO.

He is currently the Vice Rector and Dean of the Pentecost University College Graduate School.

Kwame is an Elder of the Church of Pentecost and a proud old student of Mpraeso Senior High School (MPASS).

He is also a farmer, happily married and has three (3) adult children

1.2 ICAG's website hosts a Job Portal

The secretariat is keen on improving its services targeted at its stakeholders including members. For this reason, a job portal has been created and is being hosted at ICAG's website (www.icagh.com/jobs-portal). Members and students are encouraged to visit the portal often for job avenues available both locally and internationally. Kindly forward to the secretariat any vacancies related to the accounting function for the benefit of our stakeholders to info@icagh.com.

1.3 E-copy of Students' Journals

As from the third quarter this year, the third edition of the Students' Journal will be transformed from the usual hardcopy editions to e-copies. Students, who have regularly not been receiving communication from the secretariat by email, are kindly requested to submit their email addresses to patrick.mensah@icagh.com, pat.mankatah@icagh.com and

studentservices@icagh.com to ensure that they will be recipients of the e-copies of the professional journal.

1.4 ICAG Conducts Induction Course and Graduation and Admission Ceremony

ICAG as part of the golden jubilee celebrations which began on 19th April 2013, the Institute held a special anniversary Induction Course and Graduation and Admission Ceremony for those who qualified in the May, 2013 professional examinations. There were over 260 graduands and 289 new members. The Induction Course was held at the Royale Fiesta hotel in Accra from 13th to 16th of September, 2013 and the Graduation and Admission Ceremony was held at the Banquet Hall, State House on 19th November 2013, 2013. The ceremony was preceded by a dinner at the Movenpick Hotel, on 18th November 2013.

1.5

ICAG Embarks on School Outreach Programs

In its bid to increase student numbers substantially and create a strong brand image for the Institute, the secretariat embarked on an appreciable number of marketing

campaigns targeted at the tertiary institutions in the country. To support this effort, a Business Development Unit has been created as part of the Students Services Department made up mainly of national service personnel. They have been very enthusiastic and have so far visited the University of Ghana Business School, KNUST, University of Cape Coast, Kumasi Polytechnic and Zenith University College. More outreach programmes have been earmarked this year.

1.6

ICAG Introduces New Syllabus for the Professional Examinations

The Institute of Chartered Accountants, Ghana is to introduce new syllabus for its professional examinations with effect from May 2015 diet. As has always been the case the Institute regularly reviews its syllabus to meet current challenges and also to meet international standards. With this in mind the Institute has been reviewing its syllabus structure and contents every five years to take into account new developments in the accountancy profession and knowledge as well as the aspirations and requirements of the academia, industry and practice.

The current structure which is in four parts and sixteen subjects have been reviewed to

three parts and fourteen subjects. Some mergers of related subjects have been made and Economics will not be taken as a separate subject but rather merged into other related subjects. Another significant

change is that Financial Management which used to be a single subject has been broken into two to be taken at two different levels and Taxation has been made one paper.

2.0

ARTICLES

2.1

The Extent of Compliance of GIFMIS with IPSAS

The Ghana Integrated Financial Management Information System (GIFMIS) is a project that is being implemented by the Controller and Accountant General Department (C&AD), as part of the Public Financial Management Reforms in Ghana.

GIFMIS involves the use of a software known as Oracle E-Business Suite, which has a number of modules (components) based on the specific need of the government of Ghana. The components include:

1. General Ledger Module
2. Accounts Payable Module
3. Budget Preparation Module
4. Cash Management Module
5. Accounts Receivable Module

The system will be expected to interface with the network and systems of the Ghana Revenue Authority (GRA) and the Bank of Ghana to ensure sound public financial management in the country. When fully implemented, GIFMIS will serve as the single source system for official budget creation and management, cash and treasury management, purchase ordering

and payments, and financial control and reporting for the country as a whole.

The International Public Sector Accounting Standards (IPSAS) on the other hand are a set of accounting standards issued by the IPSAS Board for use by public sector entities around the world in the preparation of financial statements. These standards are based on International Accounting Standards Board (IASB). The IPSASs aim to improve the quality of general purpose financial reporting by public sector entities, leading to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability. The scope of IPSAS shall include all general purpose financial statements prepared and presented under accrual basis of accounting. IPSAS is applicable to all public sector entities other than Government Business Enterprises (State Corporations and Institutions).

The adoption of IPSAS constitutes a major organizational change in Ghana. The implementation plan outlines how vision of government reform of the public sector financial reporting is translated into IPSAS Project goals and objectives. New and improved information will improve the quality of financial reporting in the country, thereby increasing transparency,

accountability and pragmatic operational management practices, facilitating timely and informed decision-making by managers who are accountable, thus improved governance. The adoption of IPSAS will ensure that government continues to implement best management practices and makes effective and efficient use of financial and human resources. In order to adopt IPSAS, Ghana has to do a high level assessment of the areas where the adoption would result in significant changes to the information reported by the current accounting and financial systems. The high level assessment will be used to inform the conceptual design of its single application ERP such as the GIFMIS as well as a policy framework that will be developed, which will be used for implementation, planning and training of managers and staff.

The adoption of IPSAS would go in tandem with the application of GIFMIS because both have common features and have come at the time where public sector accounting and reporting systems are found to be woefully inadequate to capture and report all government financial activities and operations within a particular period.

Rational for introducing IPSAS and GIFMIS

The issues that led to the introduction of

IPSAS and GIFMIS are:

1. Lack of accurate and current information on budgetary allocations, commitments and actual revenue and expenditures.
2. Delays in payment processing and financial reporting because of inadequate information at any particular time as to whether there are enough cash or expected revenues to meet those commitments.
3. Poor feedback mechanism for assessing budgetary performance because expenditure is only recorded when payment is done and revenue recorded only at the time cash is received under the current cash based system.
4. Lack of uniform Chart of Accounts (COA), for all government entities which make comparison of the performance of various budget units difficult.
5. Inadequate disclosure of the net worth of the country since the assets and liabilities of the country are not captured under the cash system of accounting currently in operation.

Objectives

The objectives of the two systems are similar and they include;

1. Promote efficiency, transparency and accountability in public

financial management through rationalization and modernization of budgeting and public expenditure management of the Government of Ghana (GoG).

2. Promote the timely dissemination of information for financial management.
3. Rationalize and effectively operationalised the Financial Administration Act and the Financial Administration Regulations Act.
4. Improve the efficiency and effectiveness of revenue collection and recording of the Government of Ghana.
5. Maximize payment and commitment control.

Benefits

1. Improved budgetary control, financial management (record keeping) and reporting processes.
2. Provide accurate, timely and reliable financial information to Central Government and Decentralized Institutions and Organizations.
3. Uniformity in accounting and reporting with the introduction of a common Chart of Accounts and Database for all MDAs and MMDAs.
4. Improvement in accountability, control, monitoring and auditing of

government finances.

5. Ensure that Ministries, Departments and Agencies (MDAs/MMDAs) spend within budgetary allocation due to budgetary control.
6. Match disbursements with availability of revenues thus improve efficiency in cash management and Treasury Management System.
7. Enhance enforcement of financial legislation.
8. Complete and timely exchange of data and information among/between MDAs/MMDAs and central government for producing complete, timely and accurate reports (improved record keeping) etc.
9. Improve interaction between and among other financial management players such as Bank of Ghana (BoG), Public Procurement Authority (PPA) and Ghana Revenue Authority (GRA), among others.
10. Enhance and re-enforce the internal control systems in public financial management for accountability.
11. An effective and efficient budget preparation, execution, monitoring and evaluation mechanism.
12. Provide for the ability to budget, track and monitor projects and grants

through the chart of accounts. It is significant to note that as a result of commonalities of objectives and processes, the Cash Basis IPSAS Financial Statements for January to October 2012 were produced from the GIFMIS. This process can be scaled up to produce Accrual Basis IPSAS Financial Statements using GIFMIS.

Challenges

GIFMIS modules as they operate now consist of General ledger modules, Accounts payable modules, Accounts receivable modules, Cash management modules and Budget preparation modules. These modules do not capture fixed assets which are integral part of the IPSAS. To capture all assets and liabilities for the purpose of preparing accrual basis IPSAS, there is the need to incorporate the Fixed assets modules as part of GIFMIS applications. There is the need for another module which can capture long term loans and commitments and their repayment schedules as a basis for preparing accrual basis IPSAS. At the moment GIFMIS can only prepare cash basis IPSAS financial statements and with these two additional modules preparation of full IPSAS financial statements which are accrual based can be prepared. As it stands now GIFMIS

cannot provide the total assets and liabilities of the government to know the net worth of the country.

Other challenges are how to take stock of all government assets both fixed and current and place values on them for the purpose of preparing accrual basis IPSAS. Another difficulty is knowing all liabilities and commitments of government and value them at their present value.

2.2

Information Literacy: A Specialized key for Lifelong Learning

By Nicholas Sena Ocloo
(Librarian, Institute of Chartered Accountant-Ghana)

Introduction

Majority of people are familiar with Information Technology (IT) skills but most often do not know about Information Literacy (IL) skills. Very often, people misunderstands Information Literacy skills to mean IT skills or do not know about it at all. Information Literacy skills often abbreviated as IL skills are very important to every man under the sun, it is a well-accepted truth that as human we must learn every day. People usually say “life is a learning process”, I therefore have a strong

conviction that the acquisition of a skill that can help one become a lifelong learner cannot be overemphasized. It is for this same reasons that both the University of Ghana and University of Cape Coast have Information Literacy skills as part of their academic programmes. Let me remind readers that this article is not to discredit the importance of IT skills. We all know the importance of IT skills, in fact in this age and era everyone needs IT skills to survive. But let me quickly mention that you have to be an Information Literate person to even know you need IT skills. Information Literate person will therefore be able to search and acquire those IT skills he or she needs. I know you are getting a bit confuse, but please don't be, you will get a clearer understanding at the end of this article.

What is Information?

It will be very prudent to explain what information means before moving on to talk about Information Literacy. Many dictionaries and individuals defined information in various ways – the Oxford dictionary defined information as “Facts provided or learned about something or someone”. Prof. Thomas J. Froehlich, of the Kent State University, also defined information as “resources useful or relevant or functional for information seekers” The above definitions indicate clearly that information is an important

resource we need for decision making or problem solving in our organizations or for personal use.

What is Information Literacy?

Having understood the meaning of the word *Information*, let us zoom in to understand the phrase *information literacy*. This phrase has also been defined by several authorities but I will concentrate on just one by the American Library Association (ALA). ALA defined Information Literacy as *the ability to identify what information is needed, understand how the information is organized, identify the best sources of information for a given need, locate those sources, evaluate the sources critically, and share that information*. It is the knowledge of commonly used research techniques. I believe the above definitions do not make a lot of sense, I will therefore take my time and explain the highlighted words or phrases to make it more meaningful.

What information is needed? - The information literate person should know the type of information needed. The type of information could be textual, audio, visual, audio-visual etc.

How the information is organized – An information literate person should know

how the information is organized, he or she should be able to understand if the information is organized alphabetically, chronologically, geographically, hierarchically, etc.

Sources of information – An Information literate person should be able to determine the best sources of information for a given need. Here also, he or she should be able to know if the information needed should be from primary, secondary or tertiary source. He or she needs to know whether to consider internet sources or intranet sources for such information.

Evaluate the sources – An information literate person must be able to evaluate critically the sources of those information. He or she must also evaluate by considering the authority and objectivity of the author as well as the quality, currency and relevancy of the work or the information.

Share that information –Finally an IL skilled person should have the ability to share information. Information sharing is important because other people or other departments within your organization could also need that information to solve a problem or make a decision.

Why is Information Literacy Important?

Moving forward I will like to discuss some importance of information literacy or why

one should strive to become an information literate person. The bulletins below clearly explain some reasons for one to acquire these skills.

- We are surrounded by a growing ocean of information in all formats.
- Not all information is created equal: some are authoritative, current, reliable, but some are biased, out of date, misleading, false etc.
- The amount of information available is going to keep increasing
- The types of technology used to access, manipulate, and create information will likewise expand.

We therefore need IL skills to be able to manage these emerging situations.

How Will I Use Information Literacy Skills?

It is very obvious that reading up to this point, one may ask the above question. The answer to this question is also in the following bulletins.

- For academic purposes, such as research papers and group presentations.
- They're used on the job—the ability to find, evaluate, use and share information is an essential skill.
- Consumer decisions, such as which car or vacuum cleaner to purchase, are critical.
- You'll also use these skills by

participating fully in a democratic society as an informed citizen by understanding issues and voting.

In conclusion I can say that being an information literate person will ultimately improve one's quality of life as he or she makes informed decisions when buying a house, choosing a school, hiring staff, making an investment, voting for representatives, and so much more. Information Literacy is, in fact, the basis of a sound democracy.

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2.3

How to Secure your Android-based Mobile Devices Against Mobile Malware

Author: Ernest Yaw Denkyira (ICT Manager, ICAG)

The Android operating system (OS) is a burgeoning platform for deploying mobile applications to both tablet and smartphone users. The openness of this new operating environment has led to new applications and markets, and seeks to enable greater integration.

According to a recent press release (*see figure below*) from the International Data Corporation (IDC), a Worldwide Quarterly Mobile Phone Tracker, Android device

vendors shipped a total of 187.4 million smartphones in the 2nd Quarter of 2013, up by 73.5% from the 108 million units shipped in the same period of 2012.

The Executive Chairman of Google, Eric Schmidt, recently confirmed that the Android OS is now seeing 1.5 million device activations per day, and a significant 79.3% share of the global smartphone market that eclipses the once-dominant Apple iOS. This trend is expected to continue, considering that Android's liberal

licensing structure, its containment-based security model, open development environment, wide adoption across multiple hardware manufacturers and carriers, and modern end-user experience make it an attractive platform for both personal and enterprise use.

Top Smartphone Operating Systems, Shipments, and Market Share, Q2 2013 (Units in Millions)

Operating System	2Q13 Unit Shipments	2Q13 Market Share	2Q12 Unit Shipments	2Q12 Market Share	Year-over-Year Change
Android	187.4	79.3%	108	69.1%	73.5%
iOS	31.2	13.2%	26	16.6%	20.0%
Windows Phone	8.7	3.7%	4.9	3.1%	77.6%
BlackBerry OS	6.8	2.9%	7.7	4.9%	-11.7%
Linux	1.8	0.8%	2.8	1.8%	-35.7%
Symbian	0.5	0.2%	6.5	4.2%	-92.3%
Others	N/A	0.0%	0.3	0.2%	-100.0%
Total	236.4	100.0%	156.2	100.0%	51.3%

Source: IDC Worldwide Mobile Phone Tracker, August 7, 2013

(A) The Ubiquity of Android Devices

The ever-growing Android-based smartphone sales figure above made it clear—the “Age of the Android OS” has arrived. Everyone's looking for a smartphone that doesn't only come with basic

communication and messaging features but also with more technologically advanced capabilities. Whether for business or recreational use, Android apps have made this a reality.

One of the Android OS's most interesting features

is that it offers developers the ability to build their own rich and innovative apps. Google play (formerly the Android Market) now has over 1,400,000 apps for users in 149 countries. Over 10 billion apps were downloaded from Google play by the end of 2011. The majority of these apps may be downloaded for free, which, unfortunately, spells possible danger to those who try out all kinds of apps. Trojanising apps is, after all, no longer an uncommon cybercriminal tactic.

Android apps are also available in several third-party stores, apart from developers' own sites. This hasn't escaped cybercriminals' attention and so poses even more risks.

With all the valuable data stored in your smartphone, you should strive to keep it safe from all kinds of threats.

(B) A Colossal Deposit of Personal Data... How much are your Mobile Device Data Worth?

Three main categories of personal data are “consumed” by smart phones and tablets:

1. Obviously, Contact Data and conventional Identification Data found in any mobile phone, whether “smart” or not. In the case of smartphones, these data are just more numerous and more ubiquitous (e.g. saved in the “cloud”). The user therefore needs to keep control

over and secure their access and dissemination.

2. Data linked to Multimedia Contents (photos, videos...) that become about (86%) omnipresent. A study recently revealed that, in 2012, 32% of all photographs taken in the USA were shot from a smartphone. Yet, such multimedia contents leave traces of behaviors increasingly likely to be compared, enriched, stored, encoded and re-used, in particular via the booming techniques of facial and vocal recognition now publicly accessible.
3. Data that are secret by nature (access PINs, bank details, passwords, etc.). While their recording into smartphones is less frequent, they nevertheless raise a real security issue, for instance in case of malware intrusion or illegitimate access to the phone.

According to a survey published in December 2011 by the University of Columbia and Telefonica, mobile web users are relatively well aware of the merchant value and exploitation of their personal data in the context of free cloud services, and find no malicious intent in it. Users however feel uncomfortable with the idea that the service providers would take the initiative of monetising their data. Users largely consider data linked to their

real identity (age, gender, address, etc.) and those relating to their social or financial issues as the most “expensive”.

(C) The Malware Risks to your Android Device

The risks to Android phones and tablets from malware -- or software written with 'malicious intent' -- are rising rapidly. These threats are multiplying faster than gremlins in a swimming pool, so how do you protect your device from evil doers' dirty deeds?

Just like on Windows computers, malware can steal your mobile banking details, credit card information, and contact lists. However, recent reports say that the most popular malware 'payloads' are currently premium SMS apps to steal your privacy and money. Another way in which malware could compromise you is by recording your phone calls and sending them on to some unscrupulous hacker. Scared? Fret ye not, because there are ways to minimise the risks from malware and other security risks. Read on to find out how.

(D) How Malware Gets onto your Android Device

The ways malware gets onto your device are called *Attack Vectors*. These range from untrusted apps downloaded from the Google Play store onto your mobile, to someone simply stealing your phone. But

the most likely way malicious code will be used on your device is through 'social engineering'. In other words, tricking you.

For every popular mainstream application, for example, there will be another app with a slightly different name, created in the hope of fooling users who are not discerning enough in their Play store searches. Not all of these are malicious, but better be sure to avoid them anyway. (The main benefit of Apple's closed-door policy is that the iOS App Store is largely free of these duplicates.)

Even though Android apps ask for certain permissions from you when you install them, this level of security is largely redundant, since most apps ask for multiple permissions -- even the good ones -- and who has the time to assess the potential risks with every single app? All the more reason to make sure the products you obtain are genuine and not dodgy imitations, then.

You also need to be aware that, if you've installed a custom ROM, your device is necessarily rooted. This means malware can exploit the operating system to grant itself root permission and install extra software without any interaction from you.

(E) Ways to Secure Your Android Devices

1. **Protect Your Phone with a Password**-- It's a simple thing to do, yet so many don't. Using a password is the easiest thing you can do to protect your phone from spying eyes. Using a fingerprint lock would be even better. While a lock alone isn't going to ensure complete protection, it will prevent almost all "analog" hacking (i.e. physically looking at your phone)—not to mention putting your mind at ease for those inevitable times you accidentally leave the phone in cab or restaurant.
2. **Use your smartphone's built-in security features.**—The most effective way to keep your smartphone safe from abuse and/or misuse is to properly configure its location and security settings. Keep in mind that using any available smartphone security option is always better than throwing caution to the wind. Passwords are, after all, created for a reason—to deter abusers from accessing your confidential or sensitive data. Common smartphone security features:
Keystroke pattern, PIN (numeric), or password lock option
Fingerprint scan lock option.
To configure your smart phone's location and security settings, go to: Settings > Location & Security.

3. **Avoid using free but unsecured Wi-Fi access.**—Plenty of reasons to doubt the security or lack thereof of using free wireless Internet access exist. Accessing the web via an open network may be easy, free, and convenient but it does come with risks. Automatically accessing open wireless networks means opening the door to just about anyone. Anyone on the same network can see even what you may not want him or her to. The same threats that desktop or laptop users face can also plague smartphone users when they habitually access insufficiently secured wireless networks. This is precisely why turning the automatic wireless connection option off is one way to keep mobile threats at bay. To turn your smart phone's automatic wireless connection option off, go to: Settings > Wireless & networks > Wi-Fi.
4. **Scrutinize every app you download regardless of source.**— The first Android Trojan came in the guise of Windows Media Player. Shortly after, a new Android Trojan was found in a China-based third party app store. Since then, the number of malicious Android apps exponentially increased, most of which were found in third-party app stores. If

the growth rate continues to rise, we may see over 120,000 malicious apps by the end of the year. I would advise you to download apps from Google play than from third-party app stores. As the official app store, it can be trusted more than others.

Note though that Trojanised apps also find their way to Google play. As such, I would encourage you to closely scrutinize the apps you download. Familiarise yourself with the developers of popular apps. Check out user ratings and reviews. These can spell the difference between installing an app and installing malware in your Smartphone.

5. Understand the permissions you are allowing before accepting them. – Analyzing numerous malicious Android apps showed that these usually sought access to a wide range of information stored in Smart phone. Such was the case with the Trojanised version of the Android Market Security Tool. It sought victims' permission to send text messages to premium-rate numbers, determine their current location, view their saved text messages, and change their device settings. Granting permission allowed it to act as a backdoor program,

gathering and sending device information to a remote URL. It also performed other unauthorized functions like modifying call logs, monitoring and/or intercepting incoming text messages, and downloading videos.

Be careful about granting access to personal and/or device information or letting apps do other unnecessary actions in order to work. Consider how an app functions. If it is, for instance, not a phone book application, then it doesn't need access to your list of contacts.

6. Consider investing in an effective mobile security app. – Sometimes, being careful when downloading and installing apps isn't enough; because cybercriminals will never tire of coming up with ingenious ways to trick you into giving out personal data, using an effective security solution is still your best bet. To stay protected anywhere, anytime, you can rely on solutions like Trend Micro Mobile Security for Android or TrustGo Mobile Security. Any of these protects the digital files you store in your phone and secures your mobile banking or credit card transactions. It identifies and stops malware from even reaching your

Smart phone, giving you peace of mind.

7. **Install OS Updates as soon as they're Available** – In the Droid Dream malware scare, the hackers had used the malicious apps to attack phones via known vulnerabilities in Android. Those vulnerabilities had been patched, however, in more recent versions of the OS. Granted, Android is fragmentized—it's hard to know what version your phone can upgrade to—but when you get an upgrade notification, you should install it immediately. With every update, Google routinely closes up holes that malware authors can exploit.
8. **Don't View Sensitive Information on Public Wi-Fi** – Wi-Fi is one of the most beneficial inventions for PCs in the last decade, bringing wireless Internet access to almost every public meeting joint in the country. But that's exactly the problem—anyone can walk into that joint and get on the same network you're using. If your Wi-Fi network is unsecured, you should think twice about doing anything particularly sensitive (like firing up that banking app).
9. **Write down the “IMEI” number of your phone and keep it in a safe place.** You can use it to remotely lock your

phone to protect your data, if lost or stolen.

2.4

Getting The Most Out Of A Stepping Stone Job

It can be hard to be passionate about a “placeholder” job, the kind you take just because you need a pay cheque while you continue to pine for your dream job. But with the right attitude and set of circumstances, you might eventually look back on that job as the launching pad for your career happiness. People who are in their first jobs or trying to transition have to realize that it is a stepping stone to something better, and do their best even if it's not the perfect fit for them. Here are the strategies for making the most out of every job, even if it's not your ideal one.

1. **Figure out who the players are in the company.** – aligning yourself with movers and shakers, even if your job title doesn't warrant it, can be a great networking move. Don't just focus on the people's titles either, who suggest watching carefully to see whose energy lights up the office.”It's not a luck of the draw thing. Get yourself on the projects with the 'A players'. You will learn more, and they will have more need for you. When you are ready to move on, these are people who will give you glowing

references, not to mention you could learn a thing or two from them. Or, you might just fall in love with the company and carve out a promotion for yourself.

2. Working on fitting in before standing out: - when you first start out, the goal is to be perceived as part of the team. Until you really get to know the culture of the company, take some time to listen, learn, and play the part. Go to all meetings you are invited to, even if you are sacrificing your own productivity. Meetings are giving you face time with higher ups and really important people, so you can interact with a group.

3. Don't act entitled: - entitlement is the idea that a job or certain tasks are beneath you. While that could be true in some ways, you should never act like you are just a temporal worker. There are some people who paid their dues who are going to despise that attitude. You might have been a great student, for example, but no one will care about your GPA in the workplace. Whether it serves as a temporary income stream, ends up connecting you with a mentor who will help guide your career, or gives you the chance to sharpen some skills, your stepping stone job isn't as bad as you think. Take from it what you can, and stay on the hunt for your next big break.

2.5

How To Boost Your Skills For The Job Market

If you are having trouble finding a good job, it could be because your skills don't match the needs of today's employers. And you are certainly not alone in your unemployment (or underemployment) – even those who completed high school and some college may find themselves woefully unprepared for the workforce.

According to the Organization for Economic Co-operation and Development (OECD) Survey of Adult Skills, which measured the skills of 16 –to 65 year-olds across 24 countries, American adults are lagging behind many of their global peers in reading, math, and problem-solving skills. For example, the study found that 28.7 percent of adults in the United States perform at or below the most basic level in math, compared to just 8.2 percent of adults in Japan. And when it comes to reading and math skills, young Americans rank the lowest among their peers in all the countries surveyed. In fact, low reading and math skills are more common in the United States than on average across countries.

How to boost your skills

While it is too late to go back to elementary school and lay a better foundation for your education, there are steps you can take now to gain the skills you need to secure a solid career. It starts with enrolling in an adult education program, and making sure that particular program will help you get where you want to go.

Take a look at three non-negotiable components of an adult education program:

1. **Goal-oriented curriculum:** - The American Council on Education (ACE), which recently released a report based on the OECD study, recommends that colleges align academic content with occupational goals. What does that mean for you, the adult student? Basically, you need to be an educated consumer. Look for training programs that partner with local businesses and tailor their curriculum to match employers' needs. When that happens, the “required skills” section on industry job postings should look similar to the intended outcomes for your academic program.

2. **Flexibility:** - ACE has long championed flexible education scheduling and delivery options to boost accessibility for all learners. Flexibility is especially important for adult learners who are

balancing academics with work and family responsibilities. An online training course, for example, might be much doable for you than a course that requires you to commute. Or maybe weekend classes would be just the thing to help you polish up your skills. Look for a program that was designed with working adults in mind.

3. **Stackable credentials:** - most adults don't have the opportunity to complete a certificate or degree program full time, all in one shot. You may be able to take a course or two, but then you need to stop while the kids are on break from school, or you need to travel for work, or a host of other reasons. That's why ACE recommends that colleges and universities offer “stackable credentials”. Enrolling in a stackable program allows you to earn meaningful credentials after a few classes, so you have something to show for your efforts at various steps along your education path. If you want to improve your job prospects, you need a skills boost – and a well-designed adult education program can provide just the push you need.

2.6

Dangers of Staying too Long on Mobile Phones and Computers

A research has shown that those who stay long on mobile phones and working too long with computers could suffer a brain disorder called dementia.

Dementia is an age-related disorder that typically affects the brain and leads to the deterioration of memory and concentration. The elderly who are diagnosed with dementia are forgetful and find it extremely difficult to recall the simplest of things, like phone numbers, contact information, and names of people. However, what would you say when these symptoms of cognitive decline are observed in teenagers and youngsters in their 20s and 30s. Researchers have coined a new term for this early occurrence of dementia – digital dementia.

Digital dementia that strikes youngsters has been attributed to the excessive use of Smartphone. Teens and youngsters who spend a lot of time sitting in front of computers and television sets and play a lot of digital games are increasingly showing signs of young-onset dementia. Excessive use of digital technology seems to be damaging the brain and causing temporary memory loss among youngsters. The

addiction of the young generation to Smartphone is appearing to negatively affect the part of the brain that regulates memory, concentration, and attention span.

Is Digital Technology Damaging the Brain?

South Korea, after having witnessed an unprecedented growth in the field of digital technology, has reported an alarming rise in the number of digital dementia cases. Byun Gi-won, doctor at the Balance Brain Centre in Seoul, carried out a study to observe the impact of over-using Smartphone on teenagers and concluded that the young population in South Korea is heavily dependent on digital devices, which is interfering with brain function and causing early symptoms of dementia. The doctor's claim does hold water and warrants further research as over 64% of teenagers in South Korea own a Smartphone. With Samsung Electronics based in Seoul, South Korea, there is little wonder that one in five residents in this Asian country spends over seven hours daily on their Smartphone. Also, South Korea has the highest Internet penetration figures in the world with over 83% of the population having easy access to the Web.

The right side of the brain supports cognitive function, such as memory,

attention, thinking, emotions, and processing of ideas. On the other hand, the left hemisphere is linked to logic and reasoning. According to Byun Gi-won, due to overuse of digital devices, the left brain tends to get overworked, while the right brain is hardly utilized. This under utilization of specific regions of the brain over time can cause memory problems, leading to symptoms of digital dementia.

Byun Gi-won believes that the habit of frequently using Smartphone disturbs the proper growth of the brain. With the advent of Smartphone, it is no longer a necessity to remember things as information now can be easily stored in these devices and then accessed with a single touch. This abuse of technology seems to be hindering the development of the brain, causing increased incidents of forgetfulness in youngsters. The ability to recall information has reduced possibly due to the overuse of digital devices.

Another study conducted by researchers at the University of California, Los Angeles (UCLA) asserts that the excessive use of texting services and long hours of computer viewing are factors responsible for causing poor memory and faltering focus.

Doctors in South Korea are concerned about the extent to which children and

youngsters are getting addicted to Smartphone and Xbox games. With digital technology encroaching deeper into our lives and being given more importance than it deserves, an increased number of cases of poor cognitive function in teenagers are being reported. Symptoms of cognitive decline that are usually observed in the elderly or in people who have suffered a grave head injury are getting diagnosed in teenagers these days, which is cause for much concern.

The book “Digital Dementia” written by Dr. Manfred Spitzer, a German neuroscientist, also emphasizes on the ill-effects of becoming too dependent on technology. The author mentions that heavy use of cell phones and laptops can have a negative influence on a child's brain development, and urges the authorities to intervene and forbid the usage of Smartphone, notebooks, and other such tech tools in German classrooms.

On the whole, initial findings do suggest a possible link between overuse of digital technology and cognitive decline. In today's times, digital devices have become a necessity, but it's high time we limit their usage and focus more on leading a healthier lifestyle.

3.0

TECHNICAL MATTERS

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS –AN UPDATE

(By Mr. Augustine Addo, Director,
Technical & Research, ICAG)

Within the context of Revised IAS 27, IAS 28, IFRS 3 , IFRS 10, IFRS 11 and IFRS 12, the following updates in the preparation of consolidated financial statements are worth noting:

- a) The definition of 'Control' as a basis of determining subsidiary status
- b) Calculation of Goodwill
- c) Settlement of Purchase consideration
- d) Consolidation of Joint Venture
- e) Stepped [Piecemeal] acquisition
- f) Disposal of Subsidiary

A DEFINITION OF CONTROL

IFRS 10 *Consolidated Financial Statements* outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities it controls. Control requires exposure or rights to variable returns and the ability to affect those returns through power over an investee.

The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial

statements when an entity controls one or more other entities.

The Standard:

- requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements
- defines the principle of control, and establishes control as the basis for consolidation
- set out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee
- sets out the accounting requirements for the preparation of consolidated financial statements
- defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity * . An investor determines whether it is a parent by assessing whether it controls one or more investees. An investor considers all relevant facts and circumstances when assessing whether it controls an investee. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to

affect those returns through its power over the investee.

An investor controls an investee if and only if the investor has all of the following elements:

- power over the investee, i.e. the investor has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee's returns)
- exposure, or rights, to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect the amount of the investor's returns.

Power arises from rights. Such rights can be straightforward (e.g. through voting rights) or be complex (e.g. embedded in contractual arrangements). An investor that holds only protective rights cannot have power over an investee and so cannot control an investee

An investor must be exposed, or have rights, to variable returns from its involvement with an investee to control the investee. Such returns must have the potential to vary as a result of the investee's performance and can be positive, negative, or both.

A parent must not only have power over an investee and exposure or rights to variable

returns from its involvement with the investee, a parent must also have the ability to use its power over the investee to affect its returns from its involvement with the investee.

When assessing whether an investor controls an investee an investor with decision-making rights determines whether it acts as principal or as an agent of other parties. A number of factors are considered in making this assessment. For instance, the remuneration of the decision-maker is considered in determining whether it is an agent.

B. CALCULATION OF GOODWILL

Goodwill Arising on Consolidation

The excess of the purchase consideration (assets transferred by the parent to acquire the controlling interest in the subsidiary) over the net worth acquired in the subsidiary represents goodwill.

Where NCI is fair valued at acquisition, then part of goodwill will be attributable to NCI. Goodwill at the end of the reporting period will include the additional goodwill attributable to the NCI. The opposite entry is to add the goodwill onto the NCI at the year end

Treatment of Goodwill

Positive Goodwill

Positive Goodwill arising from consolidation is initially recognised as an

asset and subsequently subjected to impairment review. Impairment recognized is dealt with in the Group Retained Earnings. Where consolidated statement of comprehensive income is being prepared, the impairment recognized in the current year is charged against the statement of comprehensive income and prior period accumulated impairment loss would be an adjustment to the opening balance on the consolidated retained earnings.

However where non-controlling interest is valued at fair value, the goodwill in the CSoFP includes goodwill attributable to the NCI. As a result, the adjustment for goodwill impairment will reflect the NCI proportion, based on their shareholding.

Negative Goodwill

Where the fair value of the separable net assets acquired exceeds the purchase consideration transferred by the Parent, negative goodwill arises. This negative goodwill may be referred to as 'A Gain on a Bargain Purchase'.

When it does arise, an entity should first re-assess the amounts at which it has measured both the cost of the acquisition and the acquiree's identifiable net assets (with the object of identifying any errors). Any excess remaining after the reassessment should be recognized immediately in profit or loss.

Illustration 1

Ghana Ltd, in its quest to gain dominance in the oil palm industry, acquired 112,500 of the ordinary shares of Accra Ltd on 1 January 2013. The market price of Accra Ltd's share just before the date of the acquisition was GHC 1.60. Ghana Ltd adopts the policy of fair valuing NCI. Goodwill is not impaired.

The separate financial statements of Ghana Ltd and Accra Ltd at 31 December 2013 were as follows:

	Ghana Ltd GHC'000	Accra Ltd GHC'000
PPE	180	150
Shares in Accra Ltd	204	
	-----	-----
	384	150
Net Current Assets	126	75
	-----	-----
	510	225
	====	====
Stated Capital(ordinary shares issued at GHC1)	300	150
Retained Earnings	210	75

-----	----
510	225
=====	=====

The Statements of Changes in Equity (extract for Retained Earnings) for the year ended 31 December 2013 were as follows

	Ghana Ltd GHC'000	Accra Ltd GHC'000
Retained Earnings as at 31 December 212	180	45
Profit for the year	50	40
Dividend Paid	(20)	(10)
	-----	-----
Retained Earnings as at 31 December 2013	210	75
	=====	=====

Required

Determine the following [for the purpose of preparing the consolidated statement of financial position as at 31 December 2013.

- a) Goodwill
- b) Non-controlling interest
- c) Consolidated retained earnings

Solution to illustration 3

Goodwill

Consideration transferred	204
Fair valuation of NCI at acquisition (37.5 X GHC1.60)	60

	264
Net worth of Accra at acquisition	
Stated capital	150
Pre-acquisition retained earnings	45

	195

Goodwill	69
	=====

An alternative calculation is as follows

Goodwill attributable to Group

Consideration transferred	204
Net worth of Accra acquired	
Stated capital	150
Pre-acquisition retained earnings	45

	195
	=====
Group's share (75% of 195)	146.25

Goodwill	----- 57.75 =====
Goodwill attributable to NCI	
Fair valuation of NCI (150 x 25% X GHC1.60)	60.00
NCI share of Net Worth at acquisition (25% of 195)	48.75 -----
Goodwill	11.25 =====
Total goodwill	69.0 =====
NCI at Year End	
Fair value at acquisition	60.00
Add: share of post-acquisition retained earnings 25% of [75-45]	7.50 ----- 67.50 =====
OR	
Share of Net Asset of Accra (25% of 225)	56.25
Add: Attributable Goodwill	11.25 ----- 67.50 =====
Consolidated Retained Earnings	
Ghana: Balance b/f	210
Accra: Parent's share of Post acquisition retained profit 75% of (75-45)	22.5 ----- 232.5 =====

C. SETTLEMENT OF PURCHASE CONSIDERATION

When a parent acquires interest in a subsidiary, payment for the interest acquired may be effected by one or more of the following:

- **Cash**
- **Share Exchange:** For example: A parent has acquired 120,000 shares in the subsidiary by issuing 5 of its own shares for every three shares in the subsidiary. The market price of the parent's shares at the date of acquisition was GH4.00, The cost of acquisition is

$(120,000 \times 5/3 \times \text{GHC}4.00 = \text{GHC}800,000.$

- **Deferred Consideration:** Where the settlement of the purchase consideration (or part thereof) is deferred to a later date, the consideration will have to be discounted to its present value using the acquirer's entity's cost of capital. For example, A parent acquired 80% of the 100 million ordinary shares that make up the stated capital of a subsidiary on 1 January 2013 at a price of GHC5.00 per share. It paid GHC3 per share and agreed to pay a further GHC160 million on 1 January 2014. The parent's cost of capital is 25%

The cost of the investment to be compared with the net worth acquired in the determination of goodwill is calculated as follows:

	GHC' million
Cash payment (80 million x GHC3) =	240
Deferred Consideration	
[GHC160 million X 1/1.25]	128

	368
	=====

At 31 December 2013, the cost of acquisition will be unchanged but the discounting of GHC32 million (GHC160 – GHC128) or (25% of GHC128 million) will be charged to finance costs, as unwinding of the discount on the deferred consideration. The deferred consideration at 31 December 2013 of GHC160 million will be shown as a current liability in the consolidated statement of financial position,

- **Contingent Consideration:** IFRS 3 (revised) requires all contingent considerations to be recognized. For example, a parent acquires 75% of the 200 million shares of a subsidiary on 1 January 2012 for a cash payment of GHC225 million and a further payment of GHC75 million on 1 January 2014 if the subsidiary's post acquisition profits had exceeded an agreed figure by that date. The cost of capital to the parent company is 25% per annum.

The cost of investment for the determination of goodwill is:

	GHC'million
Cash	225
Contingent consideration (75/1.25 ²)	48
	273
	=====

In the consolidated statement of financial position as at 31 December 2012, the

contingent liability will be presented as a liability at a value of GHC75 million /1.25 = GHC60 million and the unwound discount of GHC12million (25% ofGHC48 million) will be dealt with as a finance cost.

In the 2013 consolidated financial statements,the liability will be presented at GHC75 million and the unwound discount of GHC15 million [25% ofGHC60 million] will be dealt with as a finance cost.

D. CONSOLIDATION OF JOINT VENTURE

A joint venture shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures* unless the entity is exempted from applying the equity method as specified in that standard.

A party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with IFRS 9 *Financial Instruments*, unless it has significant influence over the joint venture, in which case it shall account for it in accordance with IAS 28 (as amended in 2011).

Illustration

Set out below are the draft accounts of Major Company and its subsidiary and of the Joint Venture (Joint). Major acquired 50% of the equity capital of Joint in 2006 when the income surplus balance of Joint stood at GHC80,000 .

Statement of comprehensive incomes for the year ended 31 December 2013

	Major and Sub GHC	Joint GHC
Net Profit	190,000	160,000
Taxation	70,000	60,000
	-----	-----
	120,000	100,000
Dividend	<u>100,000</u>	<u>20,000</u>
Retained Earnings	20,000	80,000
	=====	=====

Statement of Financial Position as at 31 December 2013

	GHC	GHC
Tangible non-current assets	440,000	200,000
Working capital	340,000	200,000

Loan to Joint	100,000	40,000
	-----	-----
	830,000	440,000
	=====	=====
Financed by		
Stated Capital	500,000	200,000
Income Surplus	330,000	200,000
Loan from Major	40,000	
	-----	-----
	830,000	440,000
	=====	=====

Major has taken credit for the dividend receivable from Joint
You are required to prepare the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position of Major Ltd Group.

Solution

Consolidated Statement of comprehensive income for the year ended 31 December 2013

	GHC	GHC
Net Operating profit		190,000
Share of profit of Joint Venture		50,000

		240,000
Taxation		(70,000)

Net Profit after Tax		170,000
		=====

Consolidated Income Surplus Account for the year ended 31 December 2013

Balance b/f (330,000 – 20,000)	310,000
Profit for the year	170,000

	480,000
Dividends	100,000

Balance c/d	<u>380,000</u>

Consolidated Statement of Financial Position as at 31 December 2013

	GHC
Tangible non-current assets	440,000
Investment in Joint Venture [150,000 + 50% of 120,000]	210,000

Dividend receivable from JV [50% of 20,000]	10,000
Net Working Capital	200,000
Loan to Venturer	20,000

	880,000
	=====
<i>Financed by:</i>	
Stated Capital	500,000
Income Surplus	380,000

	880,000
	=====

** The investment in Joint Venture has been calculated as Cost of acquisition (GHC150,000) + Post acquisition retained profit [50% of (200,000 – 80,000)]*

E. BUSINESS ACQUISITION ACHIEVED IN STAGES [STEPPE ACQUISITION/PIECEMEAL ACQUISITION]

1.1 Introduction

A parent may acquire a controlling interest in a subsidiary as a result of a series of acquisitions rather than one off acquisition. This may lead to piecemeal acquisition. Business acquisitions achieved in stages are in effect, the reversal or the mirror image of disposals (as discussed in the immediately preceding section).

1.2 Types of business combination achieved in stages

The following are variants of piecemeal acquisition:

- Non-control to non-control: A previously held interest (of say 15%) with no significant influence and accounted for as a financial asset under IAS 39, is increased to say 40%
- Non-control to Control: A previously held investment of about say 30% interest is increased to a controlling interest of about say 60%
- Control to control: A controlling interest (of about say 60%) is increased (to about say 75%)

1.3 'Crossing the accounting boundary' principle

Under IFRS 3 (Revised) 'Business Combination', a business combination occurs only when one entity obtains control over another. This generally occurs when more than 50% of the ordinary shares are acquired, i.e. when the 'accounting boundary is crossed' When the accounting boundary is crossed, the original investment (whether investment under IAS 39 or investment in associate under IAS 28) is treated as if it were disposed of at fair value

and re-acquired at fair value. The previously held interest at fair value, together with any consideration transferred, becomes the cost of the combination/acquisition to be used in determining the goodwill.

Note: In an examination situation, if a question involving piecemeal acquisition is given, you may ignore all purchases of interest in the investee prior to gaining control and only calculate goodwill after control is gained.

a) Non- Control to Non-control

If a company obtains 15% interest of the ordinary shares of an investee entity, it would be classified as simple investment and accounted for under IAS 39. The investment will be recognized initially at cost and the dividend income will be recognized in the income statement.

If subsequently, further acquisitions are made, for example 25% , the percent interest becomes 40%. This would result in the investment becoming investment in associate and equity accounting [in line with IAS 28] would be applied. In the Consolidated income statement, share of profit of associate would be recognized. In the consolidated statement of financial position, the investment would be recognized initially at cost and subsequently measured at cost plus share of post-acquisition retained profit [and less impairment loss , if any]

b) Non-Control to control: Investment (under IAS 39) or Investment in Associate becoming a Subsidiary through further acquisitions.

This is accounted for as if the previously held interest of say 40% has been disposed of at its current fair value and the controlling shareholding is then subsequently acquired. Therefore it is required that:

- The previously held investment is re-measured to fair value , and
- Any gain or loss being reported in profit and loss.

The date on which control is gained is considered to be the acquisition date. From that date, the investee entity is considered as a subsidiary and acquisition accounting is applied.

For the purpose of calculating goodwill, the cost of the investment is made of :

Fair value of previously held interest	x
Add: Fair value of consideration to acquire additional interest	x

Fair value of Parent's controlling interest at acquisition/ Cost of investment	x
	====

The goodwill is then calculated as follows:

Fair value of Parent's shareholding [Cost of investment]	
Fair value of consideration transferred for additional shares	x

Fair value of acquirer's previously held equity interest	x

Less: Fair value of identifiable net assets assumed	(x)

Goodwill	x
	==

If the group, as a matter of policy, fair value NCI, then goodwill calculation would be as follows:

Fair value of Parent's shareholding [Cost of investment]	
Fair value of consideration transferred for additional shares	x
Fair value of acquirer's previously held equity interest	x

	x
Fair value of NCI at acquisition	x
Less: Fair value of subsidiary's net assets	(x)

Goodwill	x
	==

Illustration 1

ABC Ltd prepares accounts to 31 December each year. It made the following acquisitions of ordinary shares of QRS Ltd in the secondary market:

- i) On 1 January 2009 it acquired 60 million at a cost of GHC240 million, on which date the retained earnings of QRS was GHC540 million.
- ii) On 1 January 2010, it acquired further 180 million at a cost GHC1, 020million. The retained earnings of QRS Ltd on 1 January 2010 was GHC900 million.

The stated capital of QRS had remained at 300 million issued at GHC2.00 per share since incorporation. The fair values of net asset of QRS approximate their carrying values at the date of acquisition. The first acquisition could not enable ABC exercise significant influence over QRS. It is the group policy to measure NCI at the proportionate share of the fair value of the subsidiary's identifiable net assets.

Required:

- a) Calculate the goodwill on the acquisition of QRS that will appear in the consolidated statement of financial position at 31 December 2010
- b) Calculate the profit (loss) on the de-recognition of any previously held investment in QRS to be reported in group statement of comprehensive income for the year ended 31 December 2010.

Solution

a) Goodwill (at the date control is gained)

	GHC'm
Consideration given	1,020
Add: Fair value of previously held equity interest 60m/180m xGHC1, 020m	340

	1,360
Less: Fair value of identifiable net assets assumed	
Stated capital	600
Retained earnings	<u>900</u>
	1,500

% share 240 m/300m x 1500	(1,200)

Goodwill	<u>160</u>
b) Profit on de-recognition of investment	
Fair value at date control is gained	340
Cost	240

Profit	100
	=====

Illustration 2

ABC holds 10% investment in QRS Ltd at GHC480, 000 and account for it in line with IAS 39. On 1 January 2013 ABC acquired a further 50% of QRS Ltd. ordinary shares at a cost of GHC3.2 million. On 1 January 2013, the net assets of QRS were assessed to have total value of GHC 4 million, the NCI was fair valued at GHC2 million and the 10% previously held was assessed to have a fair value of GHC 520,000.

Required

Calculate the Goodwill arising from the acquisition of QRS Ltd.

Solution 2

Goodwill

	GHC
Fair value of ABC Ltd's holding [Cost of Investment]	
Fair value of previously held interest	520,000
Fair value of consideration for additional interest	3,200,000

	3,720,000
Fair value of NCI	2,000,000

	5,720,000

Less: Fair value of QRS Ltd's net assets at acquisition	4,000,000

Goodwill	1,720,000
	=====

Workings

- W1. Group structure
 ABC Ltd 60% [10% + 50%]

Due to the step acquisition, the previously held investment [10% is fair valued and the gain/loss taken to income statement [or consolidated income statement, if only consolidated statement of financial position is to be prepared]

	GHC
Fair valuation at the date of further acquisition	520,000
Cost at acquisition	480,000

Profit on fair valuation	40,000
	=====
DR Investment	GHC40,000
CR Fair valuation gain	GHC40,000

Illustration 3

Abenaa Ltd acquired 35% of Kofi Ltd on 1 January 2010 for GHC134,000 when the retained earnings of Kofi Ltd stood at GHC60,000. A further 40% of shares was acquired by Abenaa ltd on 1 January 2011 for GHC160,000, on which date the retained earnings of Kofi Ltd were GHC90,000; the fair value of the 35% existing holding in Kofi Ltd was GHC140,000 and the fair value of NCI share in Kofi was GHC100,000.

The statements of financial position of the two companies as at 31 December 2012 were as follows:

	Abenaa GHC'000	Kofi GHC'000
PPE	400	300
Investments	284	
Current assets	316	150
	-----	-----
	1,000	450
	=====	=====

Ordinary share capital	500	300
Retained earnings	400	110
Current liabilities	100	40
	-----	-----
	1,000	450
	=====	=====

Required:

Prepare the consolidated statement of financial position as at 31 December 2012 for Abenaa Ltd group.

Solution to illustration 3

Consolidated Statement of financial position as at 31 December 2012

		GHC'000
PPE [400+300]		700
Goodwill [w3]		10
Current assets [316+150]		466

Total assets		1,176
		=====
Ordinary shares		500
Retained earnings [w5]		431

		931
Non-controlling interest [w4]		105

		1,036
Current liabilities [100+40]		140

Equity and liabilities		1,176
		=====

Working [All figures in GHC'000]

W.1 Group structure

1 January 2010	35%
1 January 2011	40%

	75% [Kofi Ltd became a subsidiary of 1 January 2011]
	=====

The 35% investment need to be fair valued on 1 January 2011 and gain or loss recognised

Fair valuation	140	
Cost	124	

Gain		16
		=====
DR Investment		16

CR Profit [Consolidated retained earnings] 16

W.2 Net assets of Kofi Ltd

	At acquisition date	At reporting date
Share capital	300	300
Retained earnings	90	110
	-----	-----
	390	410
	====	====
Post acquisition retained profit [410- 390]		20

W.3 Goodwill

Fair value of Abenaa's holding [Cost of investment]	
Fair value of previously held investment	140
Consideration offered for additional interest	160

	300
Fair value of NCI at acquisition	100

	400
Less: Net assets of Kofi Ltd at acquisition	(390)

Goodwill	10
	====

W.4 Non-controlling interest

Fair value at acquisition	100
Share of post acquisition retained earnings [25% of 20 (w2)]	5

	105
	====

W.5 Consolidated retained earnings

Abenaa: Bal b/f	400
Gain on fair valuation of previously held investment (w1)	16
Kofi: Share of post acquisition retained earnings [75% of 20 (w2)]	15

	431
	====

c) Increase in previously held controlling interest : adjustment to parent's equity

An example of this situation is where a parent that holds about 55% interest in the ordinary

shares of a subsidiary acquires further 25% of the shares in the subsidiary, thus increases the controlling interest to 80%.

There is no 'crossing the boundary' in this instance so there is no re-measurement to fair value and no gain or loss to statement of comprehensive income. The increase in the controlling interest is regarded as a transaction between owners of the subsidiary (controlling shareholders and non-controlling shareholders). What has actually happened is the reallocation of ownership between the parent and the non-controlling shareholders.

This requires the adjustment of the parent's equity. The required adjustment to the parent's equity is calculated by comparing the consideration paid with the decrease in non-controlling interest (as the parent's share has increased, the non-controlling shareholding has decreased).

The calculation is as follows:

	GHC
Fair value of consideration paid	(x)
Decrease in NCI in net assets at date of transaction	x
Decrease in NCI in goodwill at date of transaction +	x

Adjustment to parent's equity	(x)
	==

+ This adjustment is required only where it is the policy of the group to full fair value NCI at acquisition

Illustration 1

Kofi Ltd has held 60% of Amma Ltd since 2007. At acquisition, the NCI's holding in Amma Ltd had a fair value of GHC400,000 and Amma's net assets were GHC 400,000.

On 1 January 2013, Kofi purchased a further 10% interest in Amma Ltd for GHC120,000.

On this date the net assets of Amma Ltd was GHC900,000.

Required:

Calculate the adjustment required within equity as a result of this acquisition

Solution 1

At 1 January 2013, the fair value of NCI's interest in Amma was:

	GHC
Fair value of NCI at acquisition	400,000
NCI' share of post acquisition retained profit [40% of (900,000 -800,000)]	40,000

440,000
=====

Following the further acquisition the NCI's holding is reduced by 10% of 40% (a quarter). The adjustment to equity is therefore calculated as :

	GHC
Consideration offered for further interest [cash paid]	120,000 [CR Cash]
Transfer from NCI [Decrease in NCI] {10/40 x 440,000}	110,000 [DR NCI]

Decrease in equity	10,000 [DR Equity]
	=====

Illustration 2

Papa Ltd acquired 80% interest in Mama Ltd in January 2009 and has held on to this investment since then. Mama Ltd has since the acquisition date, had not issued further shares. On the acquisition date, the net assets of Mama Ltd were GHC1.5 million and fair value of NCI in Mama Ltd was GHC500,000.

The management of Papa Ltd is considering acquiring further shares in Mama Ltd from the secondary market. Papa Ltd's options are:

- i) To acquire further 10% of Mama's shares for GHC250,000
- ii) To acquire further 15% of Mama's shares for GHC475,000

Required:

Calculate the difference that will be taken to equity for each of the alternatives, together with NCI's share of equity that will be reported after the purchase of shares.

Solution 2

At the date of further acquisition, , the NCI's share of the equity of Mama was:

	GHC
Fair value of NCI at acquisition	500,000
NCI's share of post acquisition retained profit [20% of (2,000,000 – 1,500,000)]	100,000

	600,000
	=====

a) Acquisition of further 10% shares

	GHC
Consideration offered	250,000 [CR Cash]
Decrease in NCI [Transfer from NCI] [10/20 X 600,000]	300,000 [DR NCI]

Difference to equity - Increase	50,000 [CR Equity]
	=====

NCI will be shown as follows:

Fair value of NCI at acquisition	500,000
----------------------------------	---------

Share of post acquisition retained earnings [20% X (2,000,000 – 1,500,000)]	100,000
	600,000
Decrease in NCI	(300,000)

NCI after the further 10% purchase	300,000
	=====
b) Purchase of additional 15% of the shares of Mama	
Consideration offered	475,000 [CR Cash]
Decrease in NCI [Transfer from NCI] [15/20 X 600,000]	450,000 [DR NCI]

Difference to equity - Decrease	25,000 [DR Equity]
	=====
<i>NCI will be shown as follows:</i>	
Fair value of NCI at acquisition	500,000
Share of post acquisition retained earnings [20% X (2,000,000 – 1,500,000)]	100,000

Decrease in NCI	600,000 (450,000)

NCI after the further 10% purchase	150,000
	=====

F. DISPOSAL OF SUBSIDIARY

Types of Disposal

It is normal for a parent company to dispose of a subsidiary either in total, reduce the investment to an associate or to an ordinary investment.

- a) Disposal where control is lost
 - Full disposal
 - Subsidiary to associate
 - Subsidiary to trade investment
- b) Disposal where control is maintained
 - Subsidiary to subsidiary

General Principle: 'Crossing an accounting boundary'

- Technically, disposal occurs only when one entity loses control over another
- On disposal of a controlling interest, any retained interest –an associate or trade investment- is measured at fair value on the date that control is lost.(i.e where the entity adopts fair value accounting)
- This fair value is used in calculating the gain or loss on disposal and also becomes the

carrying amount for subsequent accounting for the retained interest.

- If the 50% boundary is not crossed, the event is treated as transaction between owners

Accounting for a Disposal of where control is lost

Where a parent disposes of a subsidiary to the extent that control is lost, the group

- Recognises the consideration received and any investment retained in the former subsidiary is fair valued at the date of disposal.
- Derocognises
 - the assets and liabilities of the subsidiary at the date of disposal
 - unimpaired goodwill in the subsidiary at the date of disposal, and
 - the non-controlling interest at the date of disposal (including any components of other comprehensive income attributable to them)
- Any difference between these amounts is recognized as a gain or loss on disposal in the group statement of comprehensive income

Calculation of group gain or loss on disposal

Fair Value of consideration received	x
Fair value of investment retained	x

	x
Less: Carrying value of subsidiary disposed of:	
Net assets of subsidiary at disposal date	x
Unimpaired goodwill at date of disposal	x
Less : NCI at disposal	(x)

	(x)

Gain/(Loss to the group	x
	====

In line with presentation recommended in IAS 1, this gain /(loss) may need to be disclosed separately if it is material.

2.3(a) Complete Disposal

Where holding in subsidiary is totally disposed of, the accounting arrangements are as follows:

- Consolidated Statement of Comprehensive Income [CSoCI]
 - Consolidate result and NCI to date of disposal
 - Show the group profit or loss on disposal
- Consolidated Statement of Financial Position [SoFP]
 - There will be no NCI and no consolidation as there is no subsidiary at the date the SoFP is being prepared

Illustration 1 –Complete disposal

Ghana Ltd has held a 70% interest in the ordinary shares of Togo Ltd since 1 January 2010. The cost of the acquisition was GHC4 million. The net assets of Togo on the date of the acquisition was GHC3.8 million and the fair value of NCI on the date of the acquisition, [based on the market price of shares] was GHC1.6 million.

Ghana Ltd disposed of its entire holding in Togo on 30th September 2013 for GHC 6 million, on which date the net assets of Togo Ltd was GHC4.8 million. It is the policy of measuring NCI at acquisition at full fair value and no goodwill is impaired as at 30th September 2013. Tax is charged at 25%

Required

Calculate the profit or loss on disposal for:

- a) Ghana Ltd's individual financial statements
- b) Consolidated financial statements

Solution to illustration 1

a) In the individual financial statements of Ghana

	GHC
Sales proceeds	6,000,000
Less: Cost of investment sold	4,000,000

Gain	2,000,000
Tax @ 25%	500,000

Gain after tax	1,500,000
	=====

b) In the consolidated financial statements

Sales proceeds	6,000,000
Less: Carrying value of subsidiary at disposal date:	
Net assets at disposal	4,800,000
Unimpaired goodwill	1,800,000
Less: NCI at disposal	(1,900,000)

	4,700,000

Gain on disposal	1,300,000
Tax	500,000

Gain after tax	800,000
	=====

Workings	GHC
1 <i>Goodwill</i>	
Cost of investment	4,000,000
Fair value of NCI at acquisition	1,600,000

	5,600,000
Net assets of Togo at acquisition	3,800,000

Goodwill	1,800,000
	=====
2 <i>NCI at disposal date</i>	
Fair value of NCI at acquisition	1,600,000
Share of post-acquisition retained profit [30% of (4,800,000-3,800,000)]	300,000

	1,900,000
	=====
3	
The tax attributable to the consolidated financial statement is the absolute figure applicable to the individual financial statement of the parent [because the tax is what is paid by the parent and there is no taxable entity called the 'group'.	

Illustration 2: Complete disposal

Isaac Ltd acquired 80% of the 100,000 ordinary shares of Esther Ltd for GHC500,000 in January 2008 when the retained earnings of Esther Ltd were GHC212,500. The shares were issued at incorporation at GHC1.00 per share. The market price of the a share of Esther in January 2008 when the acquisition took place was GHC5.6250. Isaac Ltd disposed of its entire holding in Esther Ltd in October 2013 for GHC1,500,000, on which date the retained earnings of Esther were GHC450,000. Tax is payable by Isaac at 20% on any gain on disposal. Goodwill on acquisition remains unimpaired.

Required:

- a) Calculate the gain or loss on disposal of shares in Esther Ltd to Isaac Ltd,
- b) Calculate the gain or loss on disposal of shares in Esther Ltd to Isaac Ltd group

Solution to illustration 2

a) Profit of loss to Isaac Ltd	GHC
Sales proceeds	1,500,000
Cost of investment sold	500,000

Profit on disposal	1,000,000
Tax @ 20%	(200,000)

Profit after tax	800,000

b) Profit of Loss to Group

Sales proceeds	1,500,000
Less: Carrying value of investment disposed	
Net assets at disposal	
Stated capital	100,000
Retained earnings	450,000

	550,000
Goodwill at disposal [w.1]	300,000
NCI at disposal [W.2]	(160,000)

	690,000

Profit of disposal	810,000
Tax	(200,000)

Profit after tax	610,000

Workings**W1 Goodwill**

	GHC
Cost of investment	500,000
Fair value of NCI at acquisition [20,000 shares @GHC5.625]	112,500

	612,500

Net assets of Esther at acquisition	
Share capital	100,000
Retained earnings	212,500

	312,500

Goodwill	300,000

W.2 NCI at date of disposal

	GHC
Fair value of NCI at acquisition [w.1]	112,500
Share of post-acquisition retained profit	
20% of (450,000-212,500)	47,500

	160,000

Illustration 3: Complete disposal

Osei Ltd bought from the secondary capital market 160,000 out of the 200,000 ordinary shares that make up the stated capital of Kuffuor Ltd in February 2009 for GHC400,000. The net assets of Kuffuor Ltd on the date of acquisition were GHC 276,000.

In August 2013, Osei Ltd sold its holding in Kuffuor Ltd to a strategic institutional investor for GHC900,000. On the date of disposal, the carrying value of the net assets of Kuffuor Ltd was GHC352,000 and it was assessed that 60% of the goodwill arising from the acquisition had impaired. The group policy is to measure NCI at the proportionate share of the net assets of the subsidiary. Capital gains are taxed at 25%

Required:

Determine profit or loss on disposal of subsidiary that would be reported in the

- a) Individual income statement of Osei Ltd
- b) Consolidated Income Statement

Solution 3

a) Profit or Loss to Osei Ltd

Sales proceeds	900,000
Less: Cost of shares sold	400,000

Gain	500,000
Taxation @ 25%	(125,000)

Gain after tax	375,000
	=====

b) Profit or Loss Osei Ltd group

Sales proceeds	900,000
Less: Carrying value of investment disposed	
Net assets at disposal	352,000
Unimpaired goodwill	71,680
NCI at disposal [20% of 352,000]	<u>(70,400)</u>
	(353,280)

Gain on disposal	546,720
Taxation	(125,000)

Gain after tax	<u>421,720</u>

Workings

w.1 Goodwill

Cost of investment	400,000
Less Net worth acquired [80% of 276,000]	(220,800)

Goodwill	179,200
Impairment [60% of 179,200]	(107,520)

Goodwill unimpaired at date of disposal	71,680
	=====

Note.

Generally, the profit on disposal of subsidiary reported in the separate financial statements of the Parent is higher than the figure reported in the consolidated financial statement [by the share of the post-acquisition retained earnings. In illustration 3 above it is the reverse, This is due to the fact that the goodwill impairment figure [GHC107,520]already recognised is higher than the share of the post-acquisition retained profit of GHC60,800 [80% of (352,000-276,000)].

Partial Disposal : Subsidiary to Associate

This situation/scenario arises where a parent disposes part of its investment in a subsidiary resulting in hitherto subsidiary, becoming an associate. [e.g 80% holding is reduced to say 30% holding].

This situation is accounted for as if the parent has disposed of the entire subsidiary and re-acquired the investment in associate at the date of disposal. The remaining interest [now associate] is measured at fair value at the date of disposal. The fair value of the investment then becomes the initial cost of investment in associate for the purpose of subsequent application of equity accounting in the consolidated financial statement

Summary of accounting arrangements : Partial Disposal- Subsidiary to Associate

- Consolidated Statement of Comprehensive Income [CSOCI]
 - Treat the undertaking as a subsidiary up to the date of disposal i.e consolidate for the correct number of months and show the NCI in that amount
 - Show the profit or loss on disposal
 - Treat as an associate thereafter
- Consolidated Statement of Financial Position [CSOFP]
 - The investment remaining is at its fair value at the date of disposal (to calculate the gain)
 - Equity account (as an associate) thereafter, using the fair value as the new cost (post-acquisition retained earnings are added to this cost in future years to arrive at the carrying value of the investment in the associate in the SoFP)

Illustration 4

Glory Ltd acquired 1,400,000 shares out of the 2,000,000 ordinary shares that make up the stated capital of Peace Ltd in November 2008. On the date of acquisition the net assets of Peace Ltd had a valuation of GHC600 million.

Net assets of Peace Ltd at 31 December 2011 were GHC1,160 million. On 30th June 2012, Glory Ltd sold 500,000 of its shares in Peace Ltd to a strategic investor for GHC500 million. On this date the fair value of remaining 900,000 shares Glory Ltd had in Peace Ltd was GHC980 million. The profit achieved by Peace Ltd in the year ended 31 December 2012 was GHC400 million. This profit is deemed to accrue evenly over the year. Goodwill on acquisition had been fully impaired as at 31 December 2011. It is the policy to measure NCI at proportionate share of the net assets of the subsidiary.

Required:

Determine gain or loss to be reported in the consolidated income statement

Solution to illustration 4	GHC'm	GHC'm
Profit or Loss on disposal		
Sales proceeds		500
Fair value of retained investment		980

		1,480
Less: Carrying amount of subsidiary disposed of:		
Net assets of subsidiary at date of disposal	1,360	
Unimpaired goodwill	0	
Less NCI at disposal	(408)	

		952

Profit on disposal		528
		=====

Workings

W1 Group Structure

Pre-Disposal		
Glory	70%	
NCI	30%	
Post-Disposal		
Glory	45 [Associate]	
Other investors	55	

W2 Net assets of Peace Ltd

At Acquisition date

At Disposal date

	GHC'm	GHC'm
At acquisition	600	
At 31 December 2011		1,160
Profit to 30 June 2012		200
	-----	-----
	600	1,360
	=====	=====
Post-acquisition		760
		=====
W3 <i>NCI</i>		GHC'm
NCI at acquisition [30% of 600]		180
Share of post-acquisition profit [30% of 760]		228

		<u>408</u>

2.3© Partial Disposal : Subsidiary to Trade Investment

This scenario is where the subsidiary becomes a trade investment after the partial disposal.

[Eg 80% holding is reduced to say 15% holding]

This scenario is also accounted for as if the whole subsidiary is disposed and the remaining investment re-acquired at the date of disposal. The remaining trade investment is fair valued at the date of disposal and subsequently accounted for under IAS 39.

Summary of accounting arrangements is as follows:

- CSoCI
 - Treat the undertaking as a subsidiary up to the date of disposal (i.e. Consolidate)
 - Show profit on disposal
 - Show dividend income only thereafter
- CSoFP
 - The investment remaining is at fair value at the date of disposal (to calculate the gain/ (loss))
 - Thereafter, treat as Available For Sale Financial Asset under IAS 39

2.4 Accounting for Disposal Where Control is Retained

This reflects the fact that non-controlling shares have increased (as the parent's shares have reduced). A subsidiary to subsidiary disposal is in effect a transaction between owners. Specifically, it is a relocation of ownership between parent and non-controlling equity holders. The goodwill is unchanged because it is a historical figure, unaffected by reallocation. The adjustment to the parent's

Where NCI is measured at proportionate share of the net asset of the subsidiary (ie where NCI

is not fair valued nor goodwill is attributable to NCI), profit or loss on disposal is calculated as follows:

Where there is such an increase in the non-controlling interest:

- i) No gain or loss on disposal is calculated
- ii) No adjustment is made to the carrying value of goodwill
- iii) The difference between the proceeds received and change in the non-controlling interest is accounted for in the shareholders' equity as follows:

Cash proceeds/consideration received	X
Transfer to NCI to increase NCI	(X)

Difference to equity	X
	====

The transfer from non-controlling interest represents the share of the net assets and goodwill of the subsidiary at the date of disposal which the parent has effectively sold to non-controlling shareholders

Summary of accounting arrangements is as follows:

- CSoCI
 - The subsidiary is consolidated in full for the whole period
 - The NCI in the I/S will be based on % before and after disposal i.e time apportion
 - There is no profit or loss on disposal
- SoFP
 - The NCI in the CSoFP is based on the year end percentages
 - The change (increase) in the NCI is shown as an adjustment to the parent's equity
 - Goodwill on acquisition is unchanged in the CSoFP

Illustration 5 : Partial Disposal but Control is Maintained

Senior Ltd has held 90% interest in Junior Ltd since year 2008. On 1 July 2013, the Board of Senior Ltd decided to sell 15% for GHC200,000. On 1 July 2013, the net assets of Junior were GHC1.3 million and the full goodwill was GHC300,000.

Required

Show how this transaction would be accounted for in the consolidated accounts

Solution to Illustration 5:

	GHC	
Cash proceeds received	200,000	[DR Cash]
Transfer to NCI [15% of (1,300,000 + 300,000)]	(240,000)	[GR NCI]

Adjustment to equity – Decrease	40,000	[DR Equity]
---------------------------------	--------	-------------

Alternatively

DR	Cash	GHC200,000
DR	Equity	GHC40,000
CR	NCI	GHC240,000

Illustration 6 : Partial Disposal but Control is Maintained

The stated capital of Blessed Ltd [NY Ltd] consists of 4 million ordinary shares out of which 3.6 million shares are held by the parent company, Senyo Ltd [AM Ltd]. On the date of acquisition, the net assets of NY Ltd were GHC400,000 and the market price per share of NY Ltd was GHC0.175. As at date the net assets of NY Ltd are GHC700,000 and unimpaired goodwill arising from the acquisition is GHC350,000.

AM Ltd is considering selling part of its investments in shares of NY Ltd but still retaining control over the subsidiary. Two mutually exclusive options are being considered.

- i) To sell 200,000 shares for GHC120,000, OR
- ii) To sell 1,000,000 shares for GHC200,000

Required:

Determine the required accounting arrangements under both options

Solution to illustration 6

i) To sell 200,000 shares

Cash received	120,000 [DR Cash]
Less: Transfer to NCI [5% of (700,000 + 350,000)]	52,500 [CR NCI]
Adjustment to equity – Increase	67,500 [CR Equity]

NCI will then change in value to

Fair value at acquisition [GHC0.175 X 400,000 shares]	70,000
Share of post acquisition retained profit [10% of (700,000 - 400,000)]	30,000
Fair value just before disposal	100,000
Transfer to NCI to increase NCI	52,500
	152,500

ii) To sell 1,000,000 shares

Cash received	200,000 [DR Cash]
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Less: Transfer to NCI [25% of (700,000 + 350,000)]	262,500 [CR NCI]

Adjustment to equity – Decrease	62,500 [DR Equity]
	=====
NCI will then change in value to	
Fair value at acquisition [GHC0.175 X 400,000 shares]	70,000
Share of post acquisition retained profit	
[10% of (700,000 - 400,000)]	30,000

Fair value just before disposal	100,000
Transfer to NCI to increase NCI	262,500

	362,500
	=====

FINANCIAL MANAGEMENT

- Q1. (a) (i) Briefly explain the term shareholder value maximization and provide THREE reasons why it is considered more appropriate than profitmaximization. *(4mk)*
- (ii) Identify four non-financial goals that can be pursued by a company. *(4 marks)*
- (iii) Explain briefly why Preference shares are not popular as a source of finance for Companies. *(2 marks)*
- (b) (i) Explain clearly the difference between an Interest Rate Swap and Currency Swap. *(4 marks)*
- (ii) ABC Bank Ltd. wishes to borrow on a fixed rate whereas XYZ Bank prefers a floating rate.
 ABC Bank can borrow on floating rate at Bank Lending Rate (BLR) + 4.5% or fixed rate at 20% per annum.
 XYZ Bank can borrow on floating rate at BLR + 3.5% or fixed rate at 15% per annum.

Required:

- (i) Demonstrate how they will use interest rate swap to their mutual benefits.
- (ii) Compute the gain resulting from the swap arrangement. *(6 marks)*

QUESTION 2

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

Required:

Briefly and clearly explain the various ways in which the bank can obtain a quotation for its shares on the Ghana Stock Exchange. *(6 marks)*

- (b) Nhyira Limited makes an annual credit sales of GH¢4,700,000. Credit period was 30 days but as a result of poor credit administration, the average collection period has been 45 days with 1% sales resulting into bad debts which are normally written off. A factor by name Quick Collection Ltd. is being considered to take up the administration of the debts and trade credits on quarterly fees of 0.625% of credit sales. In this respect, the company would save administrative costs of GH¢100,000 annually and the payment is expected to be 30 days.

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

Required:

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

(14 marks)

QUESTION 3

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

(b) The demand for phone cards is about 600,000 units per annum. It was estimated that it cost GH¢3 to keep one unit of the card in stock for one year. The Finance Manager estimated that it will cost GH¢40 each time an order is to be placed.

Required:

(i) Calculate the economic order quantity..

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

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

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

(5 marks)

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

(5 marks)

QUESTION 4

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

Required:

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

(ii) If MM makes a cash offer of GH¢205 million for all the shares of RR, what is the cost of this transaction. (2 marks)

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

- (iv) If MM offered shares valued at GH¢320 million, what will be the cost of the share offer?(2 marks)
- (v) What is the Net Present Value of the share offer? (2 marks)
- (vi) Outline two (2) reasons why shareholders of MM will insist on share offer instead of cash offer.(3 marks)
- (b) PRG Ltd. expects to pay no dividend for the next two years. However, dividend for the third year would be GH¢1 per share and the dividend is expected to grow 3% in year 4 and 6% in year 5 and 10% in year 6 and thereafter forever. If the required return for the company is 20%, what is the current price for the shares?(6 marks)

QUESTION 5

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

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

The Company's cost of capital is 10%.

Required:

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

- (i) one year
 (ii) two years
 (iii) three years(**Total: 20 marks**)

FINANCIAL MANAGEMENT STRATEGY

NOVEMBER 2013 SOLUTIONS

QUESTION 1

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

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

- i. It considers risk associated with cash flow.
 - ii. Cash flow is paid to shareholders not profit.
 - iii. It considers the timing of cash flows.
 - iv. Profit is value and can be manipulated.
- (ii) Non-financial goals are:
- i. Motivated staff
 - ii. Environmental friendliness
 - iii. Social responsibility
 - iv. Provision of quality goods or services
 - v. Growth.
- (iii) Preference shares are not popular source of finance because:
- i. They are less tax efficient
 - ii. They are riskier than debt since there is right to receive a preference dividend.

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

ii.	Fixed	Floating
ABC	20%	BLR + 4.5%
XYZ	<u>15%</u>	BLR + <u>3.5%</u>

1. $\frac{5}{100} - \frac{1}{100} = 4\%$
2. XYZ should borrow at fixed 15%
3. ABC should borrow at BLR + 4.5%
4. XYZ to assume the responsibility of floating rate: BLR + 4.5%
5. ABC to assume the responsibility of fixed rate of 15%.
6. Gain = 5% - 1% = 4%.

QUESTION 2

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

(i) Placement

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

(ii) Offer for sale of fixed price

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

(iii) Offer for sale by tender

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

(iv) Intermediaries offer

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

(B) NYIRA LINTIED

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

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

Cost of the Factor

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

Credit period = 30 days

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

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

CONCLUSION

The factor option is cheaper by $(131\,021 - 65,788) = \text{GH}¢65,233$. Management is therefore advised to accept the services of the factor.

QUESTION 3

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

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

NPV works because it takes account of the time value of money which is ignored by many other methods. Payback and accounting rate of return make no allowance whatsoever for the timing of receipts.

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

(b) Phone Cards – Economic Order Quantity

$$\text{i. } \text{EOQ} = \sqrt{\frac{2 \times \text{DO}}{\text{HC}}}$$
$$\text{D} = 600,000 \text{ units}$$

$$\text{O} = \text{GH}¢40$$

$$\text{HC} = \text{GH}¢3$$

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

ii. Total Inventory cost per annum

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

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

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

$$= \frac{4,000 + 0}{2} = 2,000 \text{ Units}$$

Inventory cost		GH¢
Ordinary cost	150×40	= 6,000
Holding cost	$2,000 \times 3$	= <u>6,000</u>

12,000

(a) AmaSerwaa

i. Plan 1 $a = 500$
 $r = 7\% \left(\frac{0.07}{2} = 0.035 \right)$

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

$$Fv = 500 \left[\frac{(1+0.035)^{20} - 1}{0.035} \right]$$
$$= Fv = \underline{\underline{GH\text{¢}14,139.84}}$$

ii Plan 2

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

$$Fv = 1,000 \left[\frac{(1+r)^n - 1}{r} \right]$$

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

$$Fv = \underline{\underline{GH\text{¢}14,147.09}}$$

QUESTION 4

(a) From transaction	GH¢ million
Incremental Revenue	70
Cost	<u>30</u>
	<u>40</u>

PV of the gain = 40
20

GH¢200

Cost of Transaction

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

NPV of Transaction

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

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

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

v. 1. MM has no Cash

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

(b) ORG Ltd.

$$\begin{aligned}
 Y1 & D_0 \\
 Y2 & 0 \\
 Y3 & 1 \\
 Y4 & i(1 + 0.03) = 1.03 \\
 Y5 & 1.3(1 + 0.06) = 1.0918 \\
 Y6 & 1.0918(1 + 0.10) = 1.20098
 \end{aligned}$$

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

$$\begin{aligned}
 P_0 &= 0 + 0 + \frac{1}{(1.20)^3} + \frac{1.03}{(1.20)^4} + \frac{1.0918}{(1.20)^5} + \frac{12.0098}{(1.20)^6} \\
 &= 0 + 0 + 0.5787 + 0.4967 + 0.4300 + 4.8264 \\
 &= \underline{\underline{GH\text{¢}6.3407}}
 \end{aligned}$$

**QUESTION 5
FARFRAE COMPANY LTD**

One year CycleCash flows

The Lowest Common Multiple = 6

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

**Equivalent Annual Cost
One year replacement Cycle**

	<u>0</u>	1	NPV
Cost	(20,000)		
Operating Cost		(4,000)	
Residual value		<u>14,000</u>	
	(20,000)	10,000	
DF @ 10%	1	0.909	
PV	<u>(20,000)</u>	<u>9,090</u>	<u>(10,910)</u>
EAC	= (10,910)	1.909	= (12,002)

**Two year Cycle Cash flows
Lowest Common Multiple**

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

Year 2 Equivalent Annual Cost

	<u>0</u>	<u>1</u>	<u>2</u>	<u>NPV</u>
Cost	(20,00)			
Operating cost	(4,000)		(8,000)	
Scrap			10,000	
	<u>(20,000)</u>	<u>(4,000)</u>	<u>2,000</u>	
DF @ 10%	<u>(20,000)</u>	<u>0.909</u>	<u>0.826</u>	<u>(21,984)</u>
EAC	= <u>(21,984)</u>	= (12,671)		
	1.735			

..1.Three year Cycle Cash flows

Lowest Common Multiple

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

Equivalent Annual Cost

Discount all Cash Flows to get the present value of cost

	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>NPV</u>
Cost	(20,00)				
Operating cost		(4,000)	(8,000)	(10,000)	
Residual Value				8,000	
	<u>(20,000)</u>	<u>(4,000)</u>	<u>8,000</u>	<u>(2,000)</u>	
DF @ 10%	1	<u>0.909</u>	<u>0.826</u>	<u>0.751</u>	
	<u>(20,000)</u>	<u>(3,636)</u>	<u>6,608</u>	<u>(1,502)</u>	<u>(31,746)</u>
EAC	=	<u>(31,746)</u>	=	(12,671)	
		2.48%			

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

1. Financial Reporting (Paper 3.1)**2. Comments on the Paper.**

2.1 The standard of the questions was good and could be compared to those previously administered. The questions were quite involving and the volume of work required especially in questions two, three and four was enormous.

2.2 The questions covered all the relevant sections and reflected the weighting of the topics in the syllabus, and it followed a similar pattern of the previous exams.

2.3 There were a few typographical errors noted in questions 1 and 4. In question 1 (b) under required, Receivable collection period and Trade Receivable collection period were required to be answered. In notes 4 of question 4 the names in the new partnership included the retired partner instead of the incoming partner. These minor errors did not have any adverse effect on the performance of the candidates.

2.4 The model answers and the marking schemes adopted were good. Alternative solutions were prepared for questions 2 and 4(b) so that no candidate is put in a disadvantaged position.

2.5 The standard of the paper was good.

3. General Performance.

3.1 The general performance of the candidates was abysmal. More than 80% of the candidates scored less than 40% of the total marks while a few candidates scored as low as 16%.

3.2 The high performers were concentrated in Accra, Kumasi, Cape Coast and Koforidua. The low performers were in the other regional centres.

3.3 There were no signs of copying.

3.4 The general performance showed that the background of most of the candidates entering the examinations at this level was poor and they were not really prepared for the examinations.

4. Notable Strengths of Candidates.

4.1 Candidates who prepared adequately and were ready for the examinations scored more than 50% of the total marks.

4.2 Candidates with high understanding of the Accounting Standards scored high marks especially in questions one (1)(a), and five

5. Weaknesses

5.1 Most of the candidates were not fully prepared for the examination. They showed lack of understanding of the Accounting Standards and the double entry principles.

5.2 The orderly and logical presentation of answers in most cases was below average.

5.3. A few of the candidates presented their answers without showing workings to support the final figures in the answer, resulting in the loss of vital points.

5.4 A few of the candidates failed to record the question numbers answered on the front cover of the answer book in chronological sequence and also on top of the page in the answer book. They also failed to record their index numbers and number the pages in the answer books. A few others failed to comply with the instructions not to write in the either margins. The use of “white out” is gradually being reintroduced. A few candidates used both their Students' Registration numbers and the Index numbers. Whilst a sizeable number of candidates did not have index numbers and therefore had to rely on their Students' Registration numbers.

6.1 Detailed analysis of performance

Q1. a) The approach to the question was above average, since most of them were able to indicate the symptoms of overtrading and they therefore scored the maximum marks.

b)(i) Most of the candidates were able to compute the various ratios from the Financial Statement. However, a few candidates decided to set their own question by changing the repetition in Receivable collection period and Trade Receivable collection to Trade Payables which was not required and therefore got penalised. (ii) Most candidates were able to compute and analyse the ratios to identify the company which sells goods as cheaply as possible to increase its volume of sales from the one which is located at a prestigious area with strong customer focus and charges premium on its goods. A few candidates scored the maximum marks for this question.

Q2. This was a preparation of Consolidated Statement of Comprehensive Income of a group and consolidated statement of changes in Equity. This could have been a bonus question, since a Consolidated Income Statement and Financial position of a company and its Subsidiary came in the last examination

which was messed up. This confirms the poor preparation of candidates for the examinations.

a) The performance showed that only a few candidates showed good understanding and preparation of Consolidated Statement of Comprehensive Income. Candidates were quite familiar with the preparation of Consolidated Financial position. So most of them spent valuable time preparing workings for consolidation financial position only for the workings to be abandoned. Thus, wasting valuable minutes.

b) Only a few candidates were able to prepare the Consolidated Statement of changes in equity.

Q3. The approach to the question was far below average. Most candidates showed little or no knowledge in the preparation of a Financial Statement. Candidates at this level of the examination should expect series of notes to work on in the preparation of a Financial Statement. Even though the question did not request for published financial statement, a few candidates prepared notes, getting no marks.

a) Most of the candidates could not prepare Statement of Profit or Loss and other comprehensive income of a limited liability company.

b) Similarly, most of the candidates were unable to prepare the statement of changes in equity.

c) Also, most of the candidates were unable to prepare the statement of financial position.

Q4. This is a two part question on Hire Purchase and Partnership. It could have been a bonus question but it turned out to be a disaster for most of the candidates. However, candidates whose understanding of the double entry is good scored high marks by applying the principle to the notes in the Partnership question.

a) Only a few candidates' approach to this section on Hire Purchase was above average. Most of them could not compute the Cost of Sales for both Cash and Hire Purchase Sales. Hence, they could not derive the Closing Stock, and the Gross and Net Profits were all wrong. Similarly, the computation of the unrealised profit was also a challenge to most of them. Most candidates appeared confused and therefore could not prepare the financial position of the company, even though most of the items in the statement of financial position require little or no adjustment to earn them the points.

b) The approach to this section was below

average. This could have been a bonus if candidates had taken their time to handle the adjustments required on the change in the partnership using the basic double entry principle.

i. Only a few were able to handle the increase in the goodwill on the admission of a new partner. The write off of the Goodwill from the accounts was a challenge to the candidates. Most of them debited the Capital account with items which should have been credited and vice versa.

ii. The preparation of the Statement of Financial Position on completion was also poorly handled by most of the candidates.

Q5. This is a three part question which could have helped the candidates to score the marks to help them improve upon their performance..

a) i) Most of the candidates who attempted this section of the question performed above average as they were able to state and explain the main qualitative characteristics of financial information.

ii) Similarly, most of them were able to state and explain the bases of measuring assets and liabilities subsequent to their initial recognition.

b) Only a few were able to calculate the impairment loss, since most of them could

not compute the future discounted cash flows to determine the recoverable amount.

c) Most of the candidates failed to explain how the oil platform should be treated in the financial statements. They concentrated on the computation of the figures in the financial statements, which they could also not get right.

7. Comment on the Marking Exercise

7.1 There was enough time to finalise the marking scheme at the co-ordination.

7.2 The time allotted for the residential marking was inadequate as the number of candidates has increased considerably..

7.3 The examiners adhered to agreements arrived at during the co-ordination.

8. The Way Forward

The academic background of candidates entering the exams at this level appears to be falling hence the poor performance in the subject. Candidates are therefore advised not to take the examinations for granted. They should ensure that they have completed the syllabus and worked through series of questions before registering for the examinations.