

**MARCH 2025 PROFESSIONAL EXAMINATIONS**  
**PUBLIC SECTOR ACCOUNTING AND FINANCE (PAPER 2.5)**  
**CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

**EXAMINER'S GENERAL COMMENTS**

Overall, the quality of the questions was of a standard level and covered the entire examination syllabus, which is commendable. The mark allocation was fair and appropriately reflected the weight assigned to the various syllabus topics. Candidates' responses to the exam items have improved, resulting in a significant overall performance in the examination. The questions were of a high standard, featuring broad coverage, clear requirements, consistency, and sufficient allotted time. The paper comprised five questions, including sub-questions and sub-sub-questions, ensuring extensive coverage of the examination syllabus. The questions appropriately reflected the level of knowledge required by the syllabus.

**PERFORMANCE OF CANDIDATES**

The overall performance in the examination was highly impressive. A few candidates demonstrated exceptional performance by achieving very high scores. This success may be attributed to the high quality of the examination questions and the candidates' preparedness, supported by the availability of the Study Manual and Question Bank published by the Institute. Prospective candidates are encouraged to utilise the study manuals and other reading materials provided by the Institute.

**GENERAL WEAKNESSES OF CANDIDATES**

Several general weaknesses among candidates have been consistently observed in their responses over time:

- **Lack of understanding of the requirements of the question:** Some candidates often fail to provide responses that align with the specific requirements of the questions. For example, in question 3 the candidates were asked to explain the reasons why a country should subscribe to the PEFA assessment and some candidates chose to explain the pillar of public financial management under the PEFA framework.
- **Limited coverage of syllabus:** Some candidates exhibited a narrow focus on certain topics, such as the preparation of financial statements, neglecting other areas covered in the syllabus. Consequently, they struggled to attempt all questions in the examination, reducing their chances of success. Notably, candidates who start well in the first few questions may experience a decline in performance as they progress through the paper due to narrow coverage, perhaps.
- **Poor time management:** Several candidates struggled with time management during examinations, spending excessive time on certain questions, often those related to financial statement preparation. As a result, they may not complete the paper within the allocated time frame.
- **Ill-preparation:** There are instances where candidates appear to have little to no preparation for the examination, resulting in responses that demonstrate a complete lack of understanding of the subject matter. However, given the rigorous nature of the examination process conducted by ICAG, such candidates will certainly not pass. Prospective candidates are advised to avoid entering the examination unprepared as it is **certain** not to yield positive outcomes.

## QUESTION ONE

The Trial Balance below relates to Hamile Teaching Hospital, a public hospital.

<b>Trial Balance for the year ended 31 December, 2023</b>		
	Debit	Credit
	<b>GH¢'000</b>	<b>GH¢'000</b>
Government subvention		100,750
Out-patient services fees		35,000
In-patient services fees		40,000
Development Partner grants (ii)		16,000
Established position salaries	62,000	
Casual Labour	5,600	
Contract appointment (local and foreign)	1,400	
Limited engagements	200	
Rent (iii)	500	150
Insurance	340	
Consultancy services	120	
Conferences, workshops and training	4,500	
Purchase of drugs	60,000	
Purchase of medical consumables	80,000	
Office expenses	20,000	
Repairs and maintenance	6,000	
Interest on loan	10,000	
Pharmacy sales		180,000
Diagnostic		85,000
Mortuary Services		9,400
Cafeteria and Canteen		4,650
Extension services		14,500
Furniture and office equipment (iv)	200,000	40,000
Medical equipment & accessories (iv & v)	420,000	120,000
Motor vehicles (iv)	120,000	20,000
Land and buildings (iv)	300,000	70,000
Bank and Cash	30,000	
Receivable from National Health Insurance Scheme (vi)	65,000	
Receivable from patients	15,000	
Payables		26,000
Loan from foreign Institution (2028) (vii)		350,000
Inventory of drugs	22,000	
Inventory of medical consumables	12,000	
Accumulated Fund		336,210
Other expenses	13,000	
	<b>1,447,660</b>	<b>1,447,660</b>

**Additional Information:**

- i) The hospital prepares its financial statements in accordance with the International Public Sector Accounting Standards (IPSAS), the Public Financial Management Act 2016, (Act 921), the Public Financial Management Regulation 2019, L.I 2378, and the current Chart of Accounts of the Government of Ghana.
- ii) The Development Partner grants received from the Health Care Fund, an international organisation that provides free medical care to the rural poor and vulnerable individuals, are typically unconditional. However, 40% of this year's grant is subject to certain conditions, which had not been met as at December 31, 2023.
- iii) Rent received in advance during the year amounted to GH¢20,000 while rent owed by the hospital for the year amounts to GH¢300,000.
- iv) The hospital charges consumption of fixed assets on straight line basis as follows

<b>Non-current Assets</b>	<b>Estimated Useful Life</b>
Furniture and office equipment	5 years
Medical equipment and accessories	4 years
Motor vehicles	5 years
Buildings	10 years

Land constitute 30% of the amount of land and building shown in the trial balance.

- v) A medical equipment valued at GH¢20,000,000 which is included in the medical equipment and accessories listed on the trial balance, was completely damaged due to consistent power fluctuations. The value of this equipment should be written off.
- vi) The hospital submitted a claim of GH¢11,000,000 to the National Health Insurance Scheme for services provided to patients in the last quarter of 2023, but the payment has not yet been received. This transaction has not yet been reflected in the trial balance.
- vii) The hospital took a loan of \$100,000,000 from Health World Bank on January 1, 2023 when the exchange rate was \$1 to GH¢3.50. The exchange rate at 31 December 2023 is \$1 to GH¢5.
- viii) The inventories at 31 December 2023 were as follows:

<b>Inventory type</b>	<b>Cost</b>	<b>Net Realisable Value</b>	<b>Current Replacement</b>
	<b>GH¢'000</b>	<b>GH¢'000</b>	<b>GH¢'000</b>
Drugs	15,000	16,000	14,000
Medical consumables	10,000	11,000	9,000

**Required:**

Prepare for Hamile Teaching Hospital:

- a) Statement of Financial Performance for the year ended 31 December 2023. **(8 marks)**
- b) Statement of Financial Position as at 31 December 2023. **(8 marks)**
- c) Disclosure notes to the financial statements. **(4 marks)**

**(Total: 20 marks)**

## QUESTION TWO

Ghana Highway Authority prepares its financial statements in accordance with International Public Sector Accounting Standards (IPSAS). The Government of Ghana has approved the sum of GH¢678,000 to the Ghana Highway Authority for the construction of a qualifying infrastructural asset.

The following costs were incurred during the construction of the Asset:

- i) The Sector Minister in the process recommended his brother as a consultant to conduct feasibility analysis on the construction of the asset. The consultant charged the Authority the sum of GH¢350,000.
- ii) An installation of platforms to enable the project to be undertaken were designed and built at a cost of GH¢225,900.
- iii) Some foreign elements of the service required that Letter of Credit was processed to enable execution of the project and the legal fees charged was GH¢275,000.
- iv) Importation of specific components from Germany to execute the project in question cost the Authority €58,890.
- v) Haulage and Freight charges cost €5,725.
- vi) Cleaning and engine oil for first testing of equipment at the project site amounted to GH¢19,430.
- vii) The cost of warranty on the asset was €3,400 should the Authority take advantage of the warranty agreement.
- viii) Delivery, handling and other overhead amounted to GH¢156,800 out of which 60% were attributable.
- ix) The Ghana Highway Authority consequently incurred cost of GH¢398,560 in modification of an adjoining infrastructure to facilitate the project.

The Government of Ghana was not able to provide all the amount hence the Minister for Finance gave approval to the Chief Executive Officer (CEO) of the Authority to borrow the excess amount from open market which a financial institution provided at a commercial rate of 35% per annum. Government of Ghana (GoG) accounting policy adopts the allowed alternative approach of borrowing costs under **IPSAS 5: Borrowing Costs**.

A check from the professional website of the Institute of Architects and Engineers in Ghana indicates that the professional fee that can be charged under the service rendered by the consultant would cost only GH¢195,000.

To the extent that the funds borrowed was not GoG funds, and the fact that the funds would be required after 100 days to pay for the cost of the asset, which was provided earlier than envisaged, the CEO took advantage of the 14 weeks' grace period for payment and invested the funds in a 91-day investment which yielded a return of 24.09% per annum at first maturity when the funds were held in anticipation of payment.

The prevailing exchange rate on the date of the contract was GH¢13.50 to €1.00, however on the day of payment the exchange rate shot up to GH¢15.57 to €1.00

### Required:

- a) Explain what is meant by a *qualifying asset*. (2 marks)
- b) Determine the cost of the qualifying asset for capitalisation. (8 marks)

- c) Based on the information provided, indicate **FIVE** notes to the accounts in the books of the Ghana Highway Authority. (6 marks)
- d) Explain another method or approach by which the borrowing cost could be recognised under *IPSAS 5: Borrowing Costs*. (4 marks)

(Total 20 Marks)

### QUESTION THREE

- a) The Government has unveiled its transformative agenda, driven by its fiscal strategy, covering the period 2025 -2028. In the Agenda 2028 document released by the government, the following strategies were outlined:
  - 1) Taxes on individual income (referred to as pay-as-you-earn) will be suspended until 2029.
  - 2) Development will be driven by debt, with the government leveraging its goodwill to borrow from development partners and investors to fund its development programmes and projects. By the end of 2024, the debt-to-GDP ratio was projected to reach 80%.
  - 3) There will be significant government expenditure aimed at boosting development and enhancing citizens' living conditions. Data from 2024 indicate that the fiscal balance relative to GDP stands at 17%.
  - 4) All forms of extravagance and wastefulness within the public sector will be eradicated to ensure efficiency, effectiveness, and value for money across all government operations.

The statement also noted that the government reserves the right to suspend the fiscal rules and targets as and when necessary.

#### Required:

- i) Examine the implications of the government's policy propositions (1 to 4) in relation to the principles of formulating and implementing fiscal policy objectives outlined in the Public Financial Management Act 2016, (Act 921). (6 marks)
  - ii) Discuss the steps and events that will necessitate a cabinet approval for a suspension of the fiscal rules and targets under the Public Financial Management Act 2016, (Act 921). (4 marks)
- b) The Public Expenditure and Financial Accountability (PEFA) Framework is designed to evaluate the public financial management performance of public institutions. However, some critics, including the Director of Finance of your entity, argue that PEFA represents a form of neo-colonialism repackaged for Africa, and therefore, African countries should resist its assessment.

#### Required:

- i) Explain to the Director of Finance **FOUR** reasons your country's PFM system should be subjected to PEFA assessment. (6 marks)
- ii) Discuss **FOUR** limitations of the PEFA framework used to assess PFM systems. (4 marks)

(Total: 20 marks)

## QUESTION FOUR

Below are IPSAS-compliant financial statements of two developing countries, Borga and Obimanso for the year ended 31 December 2023 expressed in the local currency of Ghana and published by an international public financial management organisation domiciled in Accra, Ghana.

### Statement of Financial Performance for the Year ended 31 December 2024

	<b>Borga</b>	<b>Obimanso</b>
	<b>GH¢ million</b>	<b>GH¢ million</b>
<b>Revenue</b>		
Tax Revenue	302,400	317,300
Non Tax Revenue	50,400	76,000
Grants and Donations	10,440	5,985
	<b>363,240</b>	<b>399,285</b>
<b>Expenditure</b>		
Employee compensation	190,512	161,880
Goods and Services	41,208	50,350
Consumption of Fixed Assets	4,680	8,550
Interest	77,880	76,000
Social Benefits	8,160	17,100
Subsidies	-	4,275
Other Expenses	4,800	9,880
	<b>327,240</b>	<b>328,035</b>
<b>Surplus</b>	<b>36,000</b>	<b>71,250</b>

### Statement of Financial Position as at 31 December 2024

	<b>Borga</b>	<b>Obimanso</b>
	<b>GH¢ million</b>	<b>GH¢ million</b>
<b>Assets</b>		
<b>Non-Current Assets</b>		
Property, Plant and Equipment	96,000	180,500
Equity Investments	42,000	33,250
Loans Receivables	4,800	2,850
	<b>142,800</b>	<b>216,600</b>
<b>Current Assets</b>		
Loan Receivables	33,600	37,050
Inventory	4,800	11,400
Cash and Cash Equivalent	57,600	30,400
	<b>96,000</b>	<b>78,850</b>
<b>Total Assets</b>	<b>238,800</b>	<b>295,450</b>
<b>Funds and Liabilities</b>		
<b>Current Liabilities</b>		
Payables	36,000	40,850
Deposits and Trust Monies	58,800	57,000
	<b>94,800</b>	<b>97,850</b>

<b>Non-Current Liabilities</b>		
Domestic Debt	24,000	38,000
External Debt	50,400	85,500
	<b>74,400</b>	<b>123,500</b>
	<b>169,200</b>	<b>221,350</b>
<b>Accumulated Funds</b>	<b>69,600</b>	<b>74,100</b>
<b>Funds and Liabilities</b>	<b>238,800</b>	<b>295,450</b>

**Required:**

- a) Prepare a paper for presentation at an upcoming PFM forum to evaluate the performance of the two countries using the following metrics:
  - i) Revenue to Total Assets
  - ii) Current Ratio
  - iii) Debt to Owners Fund
  - iv) Accumulated Fund to Total Assets
  - v) Common Size analyses of Tax Revenue, Compensation of Employees and Surplus  
(12 marks)
- b) Using the metrics above, interpret the performance of the two countries under *efficiency*, *short-term liquidity* and *long-term liquidity/stability* of the countries with a metric each.  
(8 marks)

**(Total: 20 marks)**

## QUESTION FIVE

- a) The International Public Sector Accounting Standards Board (IPSASB) – formerly the Public Sector Committee (PSC) – of the International Federation of Accountants (IFAC) focuses on the accounting, auditing and financial reporting needs of national, regional, and local governments, related governmental agencies and the constituencies they serve. In 2004, the PSC was relaunched as the IPSASB with revised terms of reference to reflect the Board's mandate.

**Required:**

- i) Explain the major areas of activities undertaken by IPSASB to deliver its mandate. **(4 marks)**
- ii) Discuss **FOUR** non-authoritative materials that the IPSASB develops and issues in fulfilling its objectives. **(6 marks)**
- b) Public Financial Management requires regulation within a macroeconomic framework to ensure that public funds are sustainable, reduction of fiscal risk and to support the general economic policy of the Government. In the Government's quest to realise this goal, the role of the Ministry of Finance and the Bank of Ghana cannot be overlooked.

**Required:**

Explain **FIVE** roles each of the *Minister for Finance* and the *Bank of Ghana* in supporting the general economic policy of government. **(10 marks)**

**(Total: 20 marks)**



## SUGGESTED SOLUTION

### QUESTION ONE

a)

<b>Hamile Teaching Hospital</b>			
Statement of Financial Performance for the year ended 31 December 2023			
	Notes	GH¢'000	GH¢'000
Revenues			
Government Subvention			100,750
Grants and donation	1		9,600
Internally Generated Revenues	2		<u>379,680</u>
			<b>490,030</b>
<b>Expenses</b>			
Compensation for employees	3	67,800	
Use of goods and Services	4	183,160	
Consumption of fixed assets	5	205,000	
Finance cost		10,000	
Foreign Exchange difference	6	150,000	
Other expenses		13,000	<u>628,960</u>
<b>Deficit of operation</b>			<b><u>(138,930)</u></b>

(8 marks)

b)

<b>Hamile Teaching Hospital</b>			
Statement of Financial Position as at 31 December 2023			
<b>Non-Current Assets</b>	Note	GH¢'000	GH¢'000
Property, Plant and Equipment	5		585,000
<b>Current Asset</b>			
Inventory	7	24,000	
Receivables	8	91,000	
Cash and cash equivalent		<u>30,000</u>	<u>145,000</u>
			<b><u>730,000</u></b>
<b>Current Liabilities</b>			
Payables	9	26,300	
Deposits (rent)		20	
Deferred grant		<u>6,400</u>	
		32,720	
<b>Non-current liabilities</b>			
Loans		<u>500,000</u>	532,720
Funds			
Accumulated Fund	10		<u>197,280</u>
			<b><u>730,000</u></b>

(8 marks)

1. Grants & Donation	GH¢'000
Donor grants	16,000
Transferred to deferred grant (40% *16000)	<u>(6,400)</u>
	<b><u>9,600</u></b>

2. Internally Generated Revenues	GH¢'000
Out-patient services fees	35,000
In-patience services fees	40,000
Rent (150-20)	130
Pharmacy sales	180,000
Diagnostic	85,000
Mortuary Services	9,400
Cafeteria and Canteen	4,650
Extension services	14,500
Revenue receivable (NHIS)	<u>11,000</u>
	<b><u>379,680</u></b>

3. Compensation for employees	GH¢'000
Established position salaries	62,000
Casual Labour	5,600
Limited engagements	<u>200</u>
	<b><u>67,800</u></b>

4. Use of Goods and Services	
Contract appointment (local and foreign)	1,400
Rent (500+300)	800
Insurance	340
Consultancy services	120
Conferences, workshops and training	4,500
Office expenses	20,000
Repairs and maintenance	6,000
Purchase of drugs (60,000 +22,000-15,000)	67,000
Purchase of medical consumable (80,000 +12,000-9000)	<u>83,000</u>
	<b><u>183,160</u></b>

#### 5. Non-current Asset Schedule

	Furniture & Office Equip	Medi equip & Access	Motor vehicle	Land and building	Total
Cost					
Balance b/f	200,000	420,000	120,000	300,000	1,040,000
Disposal		<u>(20,000)</u>			<u>(20,000)</u>
	<u>200,000</u>	<u>400,000</u>	<u>120,000</u>	<u>300,000</u>	<u>1,020,000</u>
<b>Consumption of FA</b>					
Balance b/f	40,000	120,000	20,000	70,000	250,000

Charge for the year	40,000	100,000	24,000	21,000	<b>185,000</b>
	80,000	220,000	44,000	91,000	435,000
Carrying amount	120,000	180,000	76,000	209,000	<b>585,000</b>

*NB:*

*It has been assumed that the medical equipment that has been destroyed was acquired during the year and therefore there is no accumulated depreciation prior to the damage. However, all other assumptions such as pro-rated approach are equally correct since the question was silent on the true situation of the asset.*

*The total amount in respect of consumption of fixed assets is comprised of damaged equipment written off and charge for the year.*

6. Foreign Exchange difference	
Debt at 1/1/2023 (\$1-GH¢3.5 of \$100,000)	350,000
Debt at 31/12/2023 (\$1-GH¢5 of \$100,000)	<u>500,000</u>
Exchange difference	<b><u>150,000</u></b>
7. Inventories	
Inventory of drugs	15,000
Inventory of medical consumables	<u>9,000</u>
	<b><u>24,000</u></b>
8. Receivables	
Receivables -NHIS per trial balance (65,000+11,000)	76,000
Receivable from patient	<u>15,000</u>
	<b><u>91,000</u></b>
9. Payables	
Per trail balance	26,000
Rent accrued	<u>300</u>
	<b><u>26,300</u></b>
10. Statement of Changes in Net Asset and Equity	
Balance per Trial Balance	336,210
Deficit of operation	<u>(138,930)</u>
	<b><u>197,280</u></b>

***Mark allocation: Maximum of 80 ticks @0.20 marks = 16 marks***

### c) Notes to the Financial Statement

Accounting policies

#### 1) Compliance with IPSAS and Financial Legislations

The financial statements are prepared and presented in compliance with the International Public Sector Accounting Standards (IPSAS), the Public Financial Management Act 2016, Act 921 and the Public Financial Management Regulations 2019, L.I 2378.

2) Accrual Basis of Accounting

The Assembly, consistent with the IPSAS and the financial legislation, applies accrual basis of accounting to the preparation of the financial statements.

3) Consumption of Fixed Assets

The non-current assets are depreciated on straight-line basis as follows:

Noncurrent assets	Estimated Useful Life
Furniture and office equipment	5 years
Medical equipment and accessories	4 years
Motor vehicles	5 years
Land & Buildings (land constitutes 30%)	10 years

During the year, a medical equipment worth GHc20,000,000 was impaired and written off due to abrupt electricity fluctuations which damaged the equipment.

4) Inventory valuation

Two categories of inventory are included in the financial statement. Inventory of drugs is valued at lower of cost and net realisable value and inventory of medical consumable is valued at lower of cost and current replacement cost.

5) Historical Cost

Property, plant and equipment is measured at historical cost, which is the original consideration offered in exchange of the assets.

6) Exchange rate

The foreign transactions are translated using the closing rate method.

*(Any 4 points @ 1 mark each = 4marks)*

*(Total: 20 marks)*

### EXAMINER'S COMMENTS

Question One was the most popular among candidates, with almost all attempting it and many achieving high scores. Overall, candidates performed very well on this question.

However, a notable weakness in responses was the disclosure of notes to the financial statements. While a significant number of candidates were able to state the accounting policies applied, some struggled to properly formulate accounting policies as part of the disclosure notes. Candidates are encouraged to focus more on this area, as it presents an opportunity to earn easy marks.

## QUESTION TWO

- a) A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use or sale. That could be property, plant and equipment and investment property during the construction period, intangible assets during the development period or “made to order inventories”.

(2 marks)

b)

### **GHANA HIGHWAY AUTHORITY** **COMPUTATION OF COST OF INFRASTRUCTURAL QUALIFYING ASSET**

	<b>GH¢</b>	<b>GH¢</b>
Consultant (Brother of Minister)	350,000.00	195,000.00
Construction of Platforms	225,900.00	225,900.00
Legal fees (letter of credit)	275,000.00	275,000.00
Components imported (58,890*15.57)	916,917.30	916,917.30
Haulage & freight (5,725*15.57)	89,138.25	89,138.25
Cleaning and testing at site	19,430.00	19,430.00
Delivery/handling/overheads	94,080.00	94,080.00
Modernising adjoining infrastructure	398,560.00	398,560.00
Charge by consultant written to overheads	(155,000.00)	-
<b>Sub Total (A)</b>	<b>2,214,025.55</b>	<b>2,214,025.55</b>
Less funds provided by GoG	(678,000.00)	(678,000.00)
Funds borrowed	<u>1,536,025.55</u>	<u>1,536,025.55</u>
 Commercial rate of interest on borrowing (35% x 1,536,025.55)	 537,608.94	 537,608.94
Less return on investment of borrowed funds (24.09%/4 x 1,536,025.55)	(92,507.14)	(92,507.14)
<b>Net attributable borrowing cost (B)</b>	<b>445,101.80</b>	<b>445,101.80</b>
<b>Total Project Cost (A+B)</b>	<b><u>2,659,127.35</u></b>	<b><u>2,659,127.35</u></b>

**NB: Only one column is required.**

(16 ticks @0.50marks =8 marks)

*NB: The candidate has two options in determining the cost of the qualifying asset as shown in the columns. Any of them is correct.*

### c) **NOTES TO THE ACCOUNTS**

- i) The Accounting Policy adopted for Borrowing cost:

It is the policy of Ghana Highway authority to treat borrowing cost using the Allowed alternative treatment, that is by capitalising direct and attributable borrowing costs as part of the cost of the asset.

ii) The amount of the borrowing cost capitalised during the period

During the year under review the Authority incurred net borrowing cost in the sum of GH¢445,101.80 and has accordingly capitalised the cost in line with its Allowed alternative treatment policy.

The Net results was determined as follows:

	<b>GH¢</b>
Amount of borrowing cost during the year	537,608.94
Return on investment of borrowed funds	<u>(92,507.14)</u>
<b>Net Borrowing Cost</b>	<b><u>445,101.80</u></b>

iii) The capitalisation rate used to determine the amount of borrowing cost eligible for capitalisation

During the year under review borrowing costs were capitalised based on the Authority's (GoG) accounting policy, and the rate of the borrowing cost was at 35% commercial rate for the borrowed funds from *a* financial institution.

iv) Foreign currency transaction

The Authority was engaged in a foreign currency transaction. The cost involved in the transaction was accordingly translated into the ruling rate of the transaction in the reporting currency and have been accounted for as such. At the end of the financial year there has not been any foreign currency held or obligation owed.

v) Related party disclosure

During the year and construction of the infrastructural asset, a related party transaction arose when the Minister brought his brother as the Consultant for the project which led to the over charge of professional fees for the job done.

The charges in respect of the project which affected an arm's length transaction is analysed as below:

	<b>GH¢</b>
Fee charged by the Consultant (Minister's brother)	350,000.00
Fees chargeable by the Professional body	<u>195,000.00</u>
<b>Excess amount charged back to Overheads</b>	<b><u>155,000.00</u></b>

*(5 points @ 1.2 marks each = 6 marks)*

d) The borrowing cost can also be alternatively treated using the benchmark approach.

**Recognition:**

Under the benchmark approach borrowing cost should be recognised as an expense in the period in which it is incurred. Borrowing costs that are incurred which are directly attributable to the acquisition, construction or production of an asset that qualifies as a qualifying asset, and that cost which would not have arisen but for the borrowing cost in respect of the qualifying asset is the type of borrowing cost that qualifies for capitalisation under the allowed alternative approach.

*(4 marks)*

*(Total: 20 marks)*

## **EXAMINER'S COMMENTS**

Overall, the question was poorly answered despite being a standard question without ambiguities. Only a few candidates scored between 10 and 14 marks, while many did not attempt the question at all.

In sub-section (a), most candidates struggled to explain qualifying assets as required. Similarly, in sub-section (b), determining the cost of a qualifying asset for capitalisation posed a challenge for many. Sub-section (c), which required candidates to prepare relevant notes to the accounts, was also poorly answered. Although the scope of disclosure covered IPSAS 4, 5, 17 and 20, candidates were generally unable to produce well-structured notes to the accounts.

Sub-section (d), which asked about an alternative approach to the treatment of borrowing costs, was well answered by most candidates. The overall poor performance could be attributed to either a lack of preparation on relevant IPSAS or the integrated nature of the question, which may have confused candidates.

### QUESTION THREE

a)

i) *Implication of Government policy proposals*

1) **Suspension of personal income tax**

The principle of formulation and implementation of fiscal objective states that fiscal policies should ensure sufficient mobilization of revenue for development. In this case, the revenue available to government through personal income tax will reduce significantly when the tax handle is suspended. While the policy may be socially acceptable, it would not produce a desirable economic result. This may negatively affect the fiscal indicators of the country.

2) **Debt-led Development**

The principle of formulation and implementation of fiscal objective requires that government should ensure that debt levels are maintained at a sustainable level. Already, the debt to gross domestic product is unfavourable (80%) and therefore continuous borrowing excessively for development may worsen the debt sustainability of the country.

3) **Massive government expenditure**

Boosting development and improving living condition of the citizens re desirable objectives of government, however uncontrolled expenditure will lead to more unsustainable fiscal balance, which will worsen the existing 17% fiscal balance to gross domestic product ratio.

4) **Elimination of Extravagance and Waste**

The principle of formulation and implementation of fiscal objective is to achieve efficiency, effectiveness and value for money in public expenditure. Thus, the policy to eliminate extravagance and waste will help to achieve value for money and ensure sustainable fiscal balance.

*(4 points @ 1.5 marks each = 6 marks)*

ii)

**Conditions and procedures for suspension of fiscal rules and targets under section 18 of the Public Financial Management Act 2016 (Act 921)**

Under Section 18 of Act 921, a fiscal target or rule provided for in the Fiscal Strategy Document may be suspended with the prior written approval of Cabinet where any of the following events occur:

- A natural disaster, public health epidemic or war as a result of which a state of emergency has been declared by the President under article 31 of the Constitution;
- An unanticipated severe economic shock, including commodity and oil price shocks.

The suspension of the rules and targets can only be carried, despite the occurrence of the events, when the Minister for Finance is of the opinion that the implementation of any of the fiscal targets or rules would be unduly harmful to the fiscal and macroeconomic or financial stability of the country.

In suspending of the rules and targets, the Minister for Finance shall submit a memorandum to Cabinet to request for approval to suspend any of the rules or targets in the Fiscal Strategy Document, providing the following information:

- The reasons why the implementation of the fiscal rule or target would be harmful to the finances and macroeconomic or financial stability of the country;
- The period within which the fiscal rule or target is to be suspended; and



- A fiscal adjustment plan setting out the measures to return to a position of compliance with the fiscal rule or target within a period of not more than five years.

*(4 marks)*

b)

i) **Reasons why Ghana should subject itself to PEFA assessment.**

PEFA assessments play a crucial role in promoting good governance, fiscal discipline, and effective resource management in countries worldwide. Ghana may benefit from PEFA assessment for the following reasons:

- **Diagnostic Analysis:** It provides a comprehensive evaluation of the performance of a country's Public Financial Management (PFM) systems, identifying strengths, weaknesses, and areas for improvement.
- **Basis for Reform:** The assessment results serve as a foundation for designing and implementing PFM reforms, guiding policymakers and stakeholders in prioritizing areas for intervention.
- **Monitoring Progress:** It facilitates the monitoring of progress in PFM reforms over time, enabling governments and development partners to track improvements and identify persistent challenges.
- **Capacity Building:** PEFA assessments contribute to building the capacity of governments and stakeholders in understanding and analyzing PFM systems, fostering informed decision-making and reform implementation.
- **Benchmarking:** It allows countries to benchmark their PFM performance against international standards and best practices, promoting accountability and transparency in financial management.
- **Advocacy:** The assessment outcomes can be used to advocate for policy changes, budget allocations, and institutional reforms aimed at strengthening PFM systems and enhancing public service delivery.
- **External Assistance:** PEFA assessments help in mobilizing external assistance and support from development partners by providing evidence-based assessments of PFM performance and reform needs.
- **Transparency and Accountability:** By promoting transparency and accountability in public financial management, PEFA assessments contribute to enhancing public trust and confidence in government institutions.

*(4 relevant points @ 1.5 marks each = 6 marks)*

ii) **Limitations of the PEFA framework used in the assessment.**

PEFA Framework and the resulting assessments suffers the following limitations.

- **Disregard for unique context.** PEFA assessments assumes that every state or local government faces similar circumstances and therefore may not fully account for the unique socio-political and economic contexts of different countries, leading to recommendations that might not be entirely applicable or practical.
- **Progress not measured.** PEFA provides a snapshot of the financial management system at a specific point in time, which may not capture ongoing reforms or recent changes. PEFA assessments refrain from providing recommendations for reforms or assuming the potential impact of ongoing reforms on PFM performance. The role of PEFA reports is to outline the government's reform agenda without evaluating its effectiveness.
- **Overly emphasis on Processes rather than outcomes.** The framework tends to emphasize the assessment of processes and compliance over outcomes, which might not directly reflect the impact on service delivery or development goals.

- **Complexity and Resource Intensity.** Conducting a PEFA assessment can be resource-intensive, requiring significant time, expertise, and financial resources, which might be challenging for some countries to mobilize.
- **Limited Scope.** While comprehensive, PEFA does not cover all aspects of public financial management, such as political economy factors, capacity constraints, and informal practices that can significantly influence PFM outcomes. PEFA concentrates on assessing the operational performance of essential components of the Public Financial Management (PFM) system rather than evaluating all the diverse inputs and capabilities that could contribute to reaching a certain performance level. Consequently, PEFA does not gauge every factor influencing PFM performance, such as the legal framework or governmental human resource capacities.
- **Accuracy of data.** The assessment depends on self-reporting and therefore the accuracy of the assessment can be influenced by the quality of data and the level of honesty in self-reporting by the assessed entities, which can vary.
- **Inadequate Follow-Up:** There may be insufficient mechanisms for ensuring that the recommendations from PEFA assessments are implemented, leading to limited impact on actual PFM improvements.
- **Window dressing practice.** Entities might focus on meeting PEFA indicators for the sake of the assessment rather than pursuing genuine and sustainable reforms. PEFA assessments do not entail the analysis of fiscal or expenditure policies to ascertain their sustainability. For instance, they do not examine whether budget expenditures effectively contribute to poverty reduction or other policy objectives, nor do they assess the achievement of value for money in service delivery

*(4 relevant points @ 1 mark each = 4 marks)*

*(Total: 20 marks)*

## EXAMINER'S COMMENTS

Overall, the performance on this question was not satisfactory. Sub-section (a) was well understood, and most candidates who attempted it demonstrated a clear understanding and presented their answers in a well-structured manner. However, many candidates struggled to identify the specific principles applicable to the given scenarios. Sub-section (b), which required an explanation of the benefits and limitations of PEFA, was poorly answered despite the familiarity of the question. Many candidates confused the benefits of PEFA with its pillars, with several using the pillars instead of highlighting the strengths as required.

## QUESTION FOUR

### a) COMPARATIVE ANALYSES OF BORGA AND OBIMANSO COUNTRIES FINANCIAL PERFORMANCE FOR THE YEAR 2023

#### Introduction

I am grateful for the opportunity to express my thoughts on the above subject to open discussion on the PFM system of the two countries

#### Evaluation / Calculations

Below are the results of the various measures / criteria to facilitate our discussion on the assessment:

	GH¢		GH¢	
i) Revenue to Total Assets	$\frac{363,240}{238,800}$	1.52	$\frac{399,285}{295,450}$	1.35
ii) Current Ratio	$\frac{96,000}{94,800}$	1.0	$\frac{78,850}{97,850}$	0.81
iii) Borrowing To Total Assets	$\frac{74,400}{238,800}$	0.31	$\frac{123,500}{295,450}$	0.42
iv) Accumulated Fund to Total Assets	$\frac{69,600}{238,800}$	0.29	$\frac{74,100}{295,450}$	0.25
v) Tax Revenue	$\frac{302,400}{363,240}$	83%	$\frac{317,300}{399,285}$	79%
vi) Compensation of Employees	$\frac{190,512}{363,240}$	52%	$\frac{161,880}{399,285}$	41%
vii) Surplus	$\frac{36,000}{363,240}$	10%	$\frac{71,250}{399,285}$	18%

*(12 marks)*

## b) Analyses and Interpretation

### Efficiency

#### Revenue to Total Assets

The Revenue to Total Asset tells how the country uses its assets to generate revenue to support the management of the country. In the evaluation, Borga was able to turnover her assets 1.52 time as revenue more than that of Obimanso's 1.35 indicating a better efficiency in the management of resources.

The other common size computations all seek to reveal the efficiency in the countries operations.

### Short term Liquidity

#### Current Ratio

The current ratio reflects a country's ability to meet its short-term obligation when they fall due. The two countries both performed poorly with regards to their short-term liquidity situation as their current ratio for the year in question fell below the standard, 2:1. This means they have a very tight short-term liquidity position as they fall due. Nevertheless, Borga performance was better as it records 1:1 against 0.8:1 for Obimanso.

### Long Term Liquidity / Stability

#### Borrowing to Total Assets

This indicator shows portion of an entity or country's assets funded through borrowing. It tells how geared a country is. From indicator computed Obimanso is more geared than Borga hence it is more independent with regards to ownership of her resources though not too wide.

Debt to Owners funds similarly also depicts stability of a country with reference to financing mix. Both countries obvious from the computation are highly funded or supported through debt as the people funds are less than funds from debt. This means the countries are both higher geared though Borga satiation is better than Obimanso.

#### Accumulated Funds to Total Assets

This provides information of the countries own contribution to her assets. That how much of the citizens funds at a particular period has funded the assets of the country. Both countries in this analysis has less than 30% contribution with reference to their respective total assets. Meaning about 70% of the assets of the countries are funded from borrowing, however Borga has slightly better performance than Obimanso as evidenced in the "borrowing to assets ratio".

### Conclusion

From the evaluation, though Obimanso made an impressive surplus for the year under review than Borga relatively showing strong efficiency in operation, it is also obvious that Borga has better standing with regards to liquidity and gearing. Hence both countries need to improve on their financial management practices to achieve favorable results in the immediate future to avoid poor credit rating.

*(8 marks)*

*(Total: 20 marks)*

## EXAMINER'S COMMENTS

Overall, candidates performed well on this question, with most scoring above 10 marks on average. Candidates were generally able to interpret and evaluate the calculated ratios effectively. The majority of candidates also correctly computed all the required ratios.

## QUESTION FIVE

a)

i) **Main areas of activities undertaken by the board to deliver its mandate.**

The International Public Sector Accounting Standards Board (IPSASB) is responsible for developing and issuing International Public Sector Accounting Standards (IPSAS) for use by public sector entities around the world. Here are the major areas of activities undertaken by IPSASB to deliver its mandate:

1. *Standard Setting*

- Developing new standards: IPSASB develops and issues new IPSAS to address emerging issues and improve financial reporting in the public sector.
- Revising existing standards: IPSASB reviews and revises existing IPSAS to ensure they remain relevant and effective.

2. *Guidance and Implementation Support*

- Guidance papers: IPSASB issues guidance papers to provide additional guidance and clarification on specific IPSAS requirements.
- Implementation guidance: IPSASB provides implementation guidance to help public sector entities implement IPSAS.

3. *Research and Development*

- Research projects: IPSASB undertakes research projects to identify areas for improvement in public sector financial reporting.
- Development of new guidance: IPSASB develops new guidance and standards based on research findings.

4. *Stakeholder Engagement*

- Consultations: IPSASB conducts consultations with stakeholders to gather feedback and input on proposed standards and guidance.
- Outreach activities: IPSASB engages in outreach activities to raise awareness about IPSAS and promote their adoption.

5. *Collaboration and Partnerships*

- Partnerships with international organizations: IPSASB collaborates with international organizations, such as the International Monetary Fund (IMF) and the World Bank.
- Collaboration with national standard setters: IPSASB works with national standard setters to promote the adoption of IPSAS.

6. *Education and Training*

- Training programs: IPSASB provides training programs for public sector entities and professional accountants.

- Educational resources: IPSASB develops educational resources, such as webinars and e-learning modules, to support the implementation of IPSAS.

By undertaking these activities, IPSASB delivers its mandate to develop and issue IPSAS that improve financial reporting and transparency in the public sector.

*(4 marks)*

**ii) Non-authoritative materials that the IPSASB develops and issues in fulfilling its objectives.**

The International Public Sector Accounting Standards Board (IPSASB) develops and issues various non-authoritative materials to support the implementation of International Public Sector Accounting Standards (IPSAS) and to provide guidance on public sector financial reporting. Here are four non-authoritative materials that IPSASB develops and issues:

1. The Conceptual Framework establishes the concepts that are to be applied in developing IPSASs.
2. Recommended Practice Guidelines (RPGs) applicable to the preparation and presentation of GPFs to provide guidance that represents good practice that public sector entities are encouraged to follow.
3. Studies to provide advice on financial reporting issues in the public sector. They are based on study of the best practices and most effective methods for dealing with the issues being addressed.
4. Other papers and research reports to provide information that contributes to the body of knowledge about public sector financial reporting issues and developments. They are aimed at providing new information or fresh insights and generally result from research activities such as: literature searches, questionnaire surveys, interviews, experiments, case studies and analysis.
5. IPSASB issues guidance papers to provide additional guidance and clarification on specific IPSAS requirements. These papers help public sector entities to better understand and implement IPSAS.
6. IPSASB staff Q&As provide non-authoritative guidance on specific IPSAS requirements. These Q&As are developed by the IPSASB staff and are intended to help public sector entities to better understand and implement IPSAS.
7. At-a-Glance Introductions provide a brief overview of each IPSAS, highlighting the key requirements and main changes from previous standards. These introductions are designed to help public sector entities to quickly understand the main requirements of each IPSAS.
8. Basis for Conclusions Documents provide a detailed explanation of the IPSASB's decisions and reasoning behind the development of each IPSAS. These documents help public sector entities to understand the underlying principles and concepts that underpin each IPSAS.

These non-authoritative materials are designed to support the implementation of IPSAS

and to provide guidance on public sector financial reporting. They are not mandatory, but rather provide helpful guidance and insights to public sector entities.

**(4 relevant points @ 1.5 marks each = 6 marks)**

b)

**Responsibilities of the Minister of Finance**

- 1) The Minister is responsible for the policy and strategic matters related to the efficient operation of the public financial management system of the country subject to policy guidance from Cabinet.
- 2) For subsection (1) and subject to the Constitution and any other enactment, the Minister shall
  - a) prepare the annual and supplementary budget estimates and reports for submission to Parliament;
  - b) submit to Parliament for approval, the budget of covered entities as required under this Act or any other enactment to ensure compliance of the covered entities;
  - c) monitor and assess the implementation of the annual budget and ensure the implementation of the fiscal policy of Government;
  - d) Manage government property, financial assets, Government debts, Government guarantees and other contingent liabilities specified under this Act;
  - e) account for public funds through a consolidated public account;
  - f) supervise the financial operations of a covered entity;
  - g) prepare Fiscal Strategy Document;
  - h) manage public funds;
  - i) coordinate and mobilise resources including financial assistance from development partners and integrate the resources into the planning, budgeting, reporting and accountability processes provided under this Act;
  - j) provide policy framework for conducting banking and management of cash for a covered entity;
  - k) issue directives and instructions necessary for the effective implementation of this Act or any other enactment to the head of a covered entity, a Principal Account Holder and Principal Spending Officer of a covered entity; and
  - l) perform any other functions assigned to the Minister under this Act.

**(Any 5 points @ 1 mark each = 5 marks)**

**Functions of the Central Bank**

The Bank shall for the purposes of section 3 perform the following functions;

- a) Formulate and implement monetary policy aimed at achieving the objects of the Bank;
- b) Promote by monetary measures the stabilization of the value of the currency within and outside Ghana;
- c) Institute measures which are likely to have a favourable effect of the balance of payment, the state of public finances and the general development of the national economy;
- d) Regulate, supervise and direct the banking and credit system and ensure the smooth operation of the financial sector;
- e) Promote, regulate and supervise payment and settlement systems;
- f) Issue and redeem the currency notes and coins;
- g) Ensure effective maintenance and management of Ghana's external financial services;
- h) License, regulate, promote and supervise non-banking financial institutions;
- i) Act as banker and financial adviser for the Government;

- j) Promote and maintain relations with international banking and financial institutions and subject to the Constitution or any other relevant enactment, implement international monetary agreements to which Ghana is a party;
- k) Do all other things that are incidental or conducive to the efficient performance of its functions under this Act and any other enactment.

**(Any 5 points @ 1 mark each = 5 marks)**

***(Total: 20 marks)***

### **EXAMINER'S COMMENTS**

The question was generally well answered, with most candidates performing well in sub-section (b), which required an explanation of the roles of the Minister for Finance and the Bank of Ghana. However, sub-section (a) was not well answered, particularly the part that required comments on how IPSASB raises awareness about authoritative and non-authoritative materials. This aspect appeared unfamiliar to many candidates, making it difficult for them to provide accurate responses.



## CONCLUSION

Generally, the questions are of high quality, the mark allocation was fair and explicit, the time allowed is commensurate with the task at stake. The questions also comply with the syllabus content and weighting. The overall performance of the candidates was encouraging, especially the responses elicited on preparation of financial statement. Lack of preparation of the candidate remained a major cause of the poor performance in the paper by some candidates.

## RECOMMENDATIONS

Based on the observations, the following recommendations are proposed:

- **Ample preparation.** Candidates should allocate sufficient time to prepare for the examination. Utilising tuition services of Partners in Learning (PIL) and studying ICAG Study Texts and Question Banks are highly encouraged. Candidates should aim to dedicate at least 6 hours per week to studying the subject, in addition to attending lectures
- **Broad coverage of syllabus.** Candidates should avoid focusing excessively on specific topic areas, as the examination covers a wide range of subjects. It is essential for candidates to have a comprehensive understanding of all topics in the syllabus, as they are equally examinable.
- **Effective time management.** Time management is crucial for success in the examination. Candidates should allocate time to each question based on its mark or weight. For instance, a 10-mark question should be allotted 18 minutes for a response. Candidates often spend too much time on financial reporting questions at the expense of other equally important questions.
- **Avoid temptation of underestimating the Paper.** Candidates who are exempted from all subjects in level two except this paper, particularly PhD, MPhil, MBA and MSC Exempt Candidates, should refrain from underestimating its importance. The paper requires current knowledge and practical appreciation of public sector financial management issues. Therefore, candidates should prepare thoroughly regardless of