Re-denomination of the Cedi (¢)

Financial and Accounting Implications

*connectedthinking

PricewaterhouseCoopers

Table of Contents

Background

Effective 1 July 2007, the current currency of the country, the Cedi **(¢)**, will be re-denominated to the Ghana Cedi **(GH¢)**, such that ten thousand Cedis will be equivalent to one Ghana Cedi. The re-denomination is not expected to affect the intrinsic value of the currency - "***the value will be the same***".

Two of the reasons given by the Central Bank for the re-denomination are the increasing difficulty in maintaining accounting and statistical records; and problems with accounting and data processing software.

For most business enterprises, such an exercise is expected to result in significant cost savings on the one hand but some challenges on the other.

Cost savings

The cost savings will be derived in two main ways. Firstly, the elimination of four zeros reduces the time taken to input financial data and time spent by management in reviewing the same. Currently, when reporting financial and accounting data, many businesses do so in thousands of Cedis or millions of Cedis in order to gain some efficiency in managing the information.

The second main area of cost saving relates to the cost incurred in customizing standard packages that are purchased by businesses. Most of the current accounting packages are developed in jurisdictions where values, at a maximum, tend to be in millions. The present situation in Ghana, where some companies are recording values of trillions of cedis, requires further customization of such packages to widen data fields. Of course, this comes at an additional cost to businesses. Thus, an effort to reduce the zeros and limit the extent of customization of standard packages will be of great benefit to businesses, as it will bring about simplification of financial data entry and also simplify the reporting of financial information and processing of business transactions.

Challenges

Contrary to the belief that the re-denomination is a simple exercise, we believe that the exercise poses significant challenges to businesses. There are enormous cost implications for business organizations. A significant part of the cost will be one off, but there are other costs which will continue to be incurred until the current currency is completely withdrawn.

The costs include:

- Upgrade or re-configuration of business and accounting software
- Staff training
- Costs involved in changes to business processes and procedures
- Cost of printing new stationery (invoices, receipt books, cheque books etc)
- Time cost of ensuring accurate data capture when both currencies are in circulation

At the time of preparing this paper, only the Bank of Ghana (BOG) has developed some guidelines to be followed by businesses in converting to the Ghana Cedi. Other stakeholders, such as the Institute of Chartered Accountants, the Securities and Exchange Commission and the Ghana Stock Exchange, are expected in due course to issue further guidelines and clarifications to help financial reporting.

The BOG guideline advises entities to report their balances in Cedis up until 30 June 2007, and thereafter, from 1 July 2007, to report balances in Ghana Cedis. It may be difficult for many businesses to covert their systems overnight from Cedi based accounting records to Ghana Cedi records.

There may be practical challenges that take some time to completely resolve. Companies that operate within a group who transact business with other group companies may also face significant challenges. For such companies, especially those who operate shared service centres, head office has to synchronize all related party balances with the Ghana company to ensure that such balances are properly converted to Ghana Cedi. This may take more than just a few days depending on the volume of related party activities with the Ghana entity.

Companies with a June year end will also face the challenge of dealing with year-end procedures and the conversion to the Ghana Cedis. This will put pressure on IT and Finance staff involved in the year-end closing processes and reporting. Such companies may want to postpone the conversion process until they have completed their year end reporting. There are currently no guidelines as to how companies should deal with these transitional difficulties.

Next Steps

On 1 July 2007, all account ledger balances maintained in Cedis as of 30 June 2007 need to be translated to Ghana Cedis. The implications of this, as far as accounting records and reporting are concerned, are twofold. The first is: what happens at the subsidiary ledger level – where individual accounting transactions are recorded? The second is: what happens at the general ledger level – where accounting transactions are summarized and reported in the form of financial statements and other reports? The conversion process will be particularly challenging for companies that process significant volumes of transactions and maintain many ledger accounts. The potential for errors in the conversion process is significant and as such care should be taken to ensure that the process is properly executed.

The view of the Bank of Ghana technical committee on the re-denomination is that, "***the re-denomination of the cedi simply involves knocking off some zeros; hence the accounting methods, principles, policies and standards currently in use by businesses will not be breached***".

The above statement is largely correct. Accounting officers should, however, refer to the following accounting standards in order to avoid errors in financial reporting.

Reporting under International Financial Reporting Standards (IFRS)

For companies that adopt IFRS as the reporting framework, these specific standards are relevant: IAS 1; IAS 21; and IAS 34. Companies whose functional currency is the Cedi will apply the requirements of paragraph 35 of IAS 21 to translate from Cedis to Ghana Cedis. This is because of the re-denominated functional currency. However, since ***'the value will be the same',*** no translation differences are expected to occur in this process. For companies that report using a presentation currency as defined in the standard, the requirements of paragraph 39 have to be applied.

Reporting under Ghana Accounting Standards (GAS)

Companies that use GAS as the reporting framework have to consider GAS 2 and GAS 19. The reporting currency, as defined in GAS 19, for such companies will change on the reference date. Paragraphs 6 and 9 set the rules that should be applied in translating to the reporting currency. Any translation differences should be recognized in accordance with paragraph 11 of the standard. Again since ***'the value will be the same'*** no translation differences are expected to occur in this process.

An area where conversion gains or losses can arise is the rounding up and down of balances above or below Cedi 50 at 30 June 2007. Such gains or losses, if material, should be accounted for as **unusual credits** or **unusual charges** in accordance with GAS 2 paragraph 18. However, these gains or losses may not be material and it will suffice to include them in other income or other expenses as the case may be. The Bank of Ghana guidelines suggest that such differences should be treated as 'other adjustments' in the income statement.

The conversion process

Companies should engage their system specialists and software vendors to re-configure systems and applications to truncate the four zeros correctly at the subsidiary ledger level. It will also be useful for companies to engage their auditors (external and internal) to audit the opening balances and sign off on those balances. Furthermore, companies should monitor the interface between subsidiary ledgers and the general ledger to ensure that the correct truncated figures end up in the general ledger. Finally, the interface between different applications that process financial data should be monitored to ensure consistency of data transfers between different applications.

A mock run may be performed in a test environment using data as of 31 May 2007. This should be done after any upgrades to the financial management system have been performed (by vendor or in house specialists). The results of the mock run will help management develop appropriate actions to deal with any potential problems that may arise with the conversion in a live data environment.

Our Systems and Process Assurance specialists have extensive experience in Post Implementation Reviews and are willing to provide assistance in this process.

The two currencies in circulation

As both currencies will be in circulation for a period of six months, businesses have to develop systems to handle both currencies over that period in their accounting records. One option is to set up and define the Cedi (old currency) as another foreign currency in the financial management systems that support multi-currency. With this, data can be captured in both currencies with minimal data entry errors.

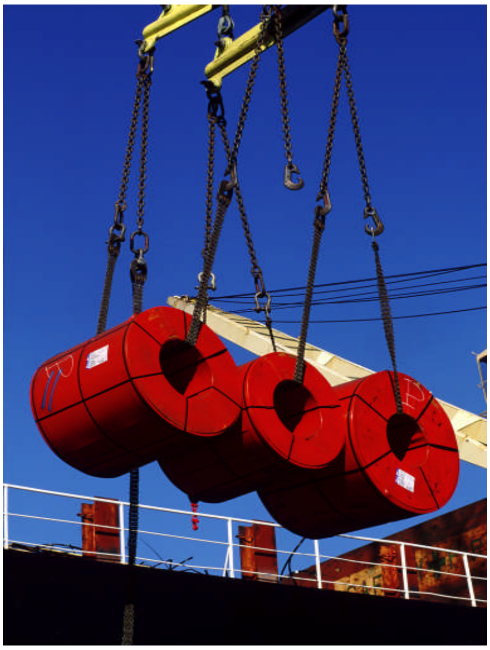
Another option is to convert all source document figures in the old currency to the new currency before data is captured into the financial management system. This process may however, be tedious and is more error prone.

Back-up procedures - 30 June 2007

Companies should ensure that a back-up of data files of the financial management system is taken on 30 June 2007. This will provide a safety net in the event that the financial records are corrupted during the conversion process.

For companies whose year end is after 30 June, we recommend a full scope interim audit for the period ending 30 June 2007. The audited interim financial statements may be used as a check on the converted opening balances at 1 July 2007.

Comparative figures



The comparative figures for financial statements for periods ending on or after 1 July 2007 should be translated from Cedis to Ghana Cedis, using the conversion ratio 10,000:1. A note disclosure should be provided in the financial statements indicating the re-denominated functional currency or reporting currency and the conversion ratio used.

Conclusion

With the proper planning and preparation, the re-denomination exercise should not be too much of a burden for companies, but it is important that action is taken now.

Good luck!

For further information contact:

charles.a.egan@gh.pwc.com

felix.addo@gh.pwc.com

mark.j.appleby@gh.pwc.com

michael.asiedu-antwi@gh.pwc.com

benson.o.okundi@gh.pwc.com