

**NOVEMBER 2020 PROFESSIONAL EXAMINATIONS  
STRATEGIC CASE STUDY (PAPER 3.4)  
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

**EXAMINER'S GENERAL COMMENTS**

This examination was based on a pre-seen scenario which described GHANA GOLDEN ONYX HOTEL (GGOH), which provides the following services: Room, Bar, Restaurant, Conferences and Meetings, Fitness Centre, Health Spa, Business Centre and Other Services. GGOH primary activity is services. The scenario was made available in advance of the exam. This is a very interesting industry and candidates are expected to be familiar as part of preparation toward the examination. The pre-seen was detailed and well-prepared candidates should have been able to give good answers in the context of the industry. The unseen scenarios were interesting and presented some realistic questions on the industry.

The standard of the paper was extremely good, and the questions were clear with preambles to assist candidates. The coverage was broad, but the paper was heavy on the strategy with only two questions worth 15 marks in the financial management. All the questions were based on the recommended syllabus and study material of the Institute. The standard of the paper also shows remarkable improvement over the previous two exams diets since the Institute of Chartered Accountant Ghana introduced the Case Study in November 2019. Marks allocation followed the weightings in the syllabus and was fairly distributed to each sub-question.

The examination is structured as follows:

Section number	Question number	Syllabus Coverage (Study Text; Chapter)	Time of section expected (minutes)
A	1 2 3 4	Chapter1 (3.3) Chapter 2 (2.1-2.9) Chapter 6 (2.1-2.6) Chapter 7 (3.5);24 (1)	90minutes
B	5 6 7 8	Chapter 24 (1) Chapter 7 (4) Chapter 14 (1);21 (1.6) Chapter 18 (3.3)	90minutes

*Note: 15 minutes for reading and planning.*

**PERFORMANCE OF CANDIDATES**

Few candidates marginally performed well, but many appeared to be ill-prepared for this examination and did not demonstrate the required level of technical knowledge and application of knowledge to the case study. Overall, candidates performed well below average. There were a number of concerns relating to student performance in several other areas, this applies to all questions. In many cases candidates quoted and described models but did not apply them to the case study, this approach does not achieve marks. All answers must be applied to the case study and should bring in

aspects of the pre-seen information as well as the information and appendix (exhibits) in the unseen material. Answers which are purely rote learning were quite common in some requirements and this approach is awarded very low marks. There were also a number of candidates who gave very theoretical answers and did not apply them to the case study. Many candidate answers lacked depth of development and therefore, although demonstrating a basic understanding and application of knowledge, they failed to accumulate sufficient marks due to not developing their answers sufficiently. Some answers were just short and incomplete.

## **NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES**

### **Strengths**

The candidates did well in the external environmental analysis using PESTEL model. Most of the candidates answered the question on this paper. Number of candidates related their answers to the case study.

### **Weaknesses**

Poor preparation by the candidates. The compelling evidence from the scripts points to poor preparation on the part of the candidates. The candidates had very low marks because the answers provided were very shallow in terms of meeting the exact requirements. A good number of the candidates failed to answer all questions because they were not prepared.

Poor performance in the financial management aspect of the paper. The paper had two questions of 15 marks in the financial management. About 99% of the candidates who attempted those questions scored zero while a significant number did not answer them at all.

Poor or limited understanding of questions. The scripts revealed that candidates deviated in answering some of the questions. This problem was common with questions that demand application of some basic concepts. The question that suffered most in this regard was question one which essentially required candidates to explain how GGOH management could make its mission statement relevant to the future success of the organization. Most candidates who attempted it deviated.

Most candidates ignored the allocation of marks to questions which resulted in poor time management.

Poor use of language. The examination scripts were characterised by poor English language construction and avoidable spelling mistakes. This affects the quality of the answers provided by some candidates. The problem of poor use of English language has featured in the previous Chief Examiners' reports. The candidates are encouraged to use the language appropriately.

## **QUESTION PAPER**

### **BACKGROUND**

The Company was registered as **Cheetah Investments Limited** on 3<sup>rd</sup> June 2015 and was incorporated as a limited liability company on 7<sup>th</sup> May 2016. It received its certificate to commence business on 25<sup>th</sup> September 2016. The company was registered with 20,000,000 shares of no par value out of which 5,000,000 shares has been issued equally to the initial shareholders or promoters, Asebu Amanfi and Asebi Boakye. They decided that each shareholder should nominate his adult child to be appointed as a member of the Board of Directors. They will at all time maintain four individuals as members of the Board and the Chairmanship will alternate between the two shareholders every two years. Asebu Amanfi decided to nominate his daughter aged 18 years, who has just been admitted to a University to be appointed as a member of the Board of Directors. Asebi Boakye decided to nominate his daughter aged 25 years, who has finished a course in animal husbandry in a college in Guanduanaland and has just returned to Ghana, to be appointed as a member of the Board of Directors. They appointed a mutual friend who has been the lead person in assisting them to set up the Hotel as Company Secretary. The question of who should be the Managing Director has come up in most of the shareholders discussions but no firm decision has been taken. They are of the view that the Hotel does not need a Managing Director at this stage of its development. Each of them can play that role as and when needed.

The company was certified and licensed to operate as a Hotel under the name **GHANA GOLDEN ONYX HOTEL (GGOH)** by the Ghana Tourist Board on 1<sup>st</sup> January 2017. GGOH became operational on 1<sup>st</sup> January 2019.

The company's vision is to be the leading business destination hotel in Ghana and indeed in Africa providing world class hospitality services to its clients. Its marketing catchword is "Local in Character, International in Outlook". The mission of the Hotel is to offer unforgettable home away from home lifestyle experience to their guests and all who find themselves on its premises.

GGOH became the preferred lodging place for staff of International Organisations and pleasure seekers because of its unique brand of Chalets and Water Front standard rooms.

### **SERVICES**

GGOH provides the following services: Rooms, Bar and Restaurant, Conferences and Meetings, Fitness Centre, Health Spa, Business Centre and other services.

#### **Rooms**

There are two (2) exquisite executive deluxe with each consisting of 3 bedrooms and two bathrooms, including a master suite bathroom with Jacuzzi/shower combo. There are also two (2) Apartments available to clients.

There are Nine (9) fully furnished business executive rooms or Villas and each consists of 3 bedrooms, 2 bathrooms, guest washroom, spacious living area, modern open-plan appliance-fitted kitchen, formal dining area, basement garage, combined laundry & storage room, and backyard space for relaxation and entertainment.

The Upper Level of each fully furnished business executive wing has a porch, a walk-in closet with full-length mirrored doors, a spacious end suite sky-lit bathroom, with a two-seater Jacuzzi, and a separate shower. The upper level houses a storage facility, and also features a vaulted ceiling, with wood beams, elegant chandelier lighting, and a beautiful balustrade staircase leading to the lower level.

Each fully furnished Business Executive house has broadband Internet, as well as terrestrial, satellite and pay-per-view television. A telephone and an intercom system, independent air conditioning, water storage and a prepaid utility system (electricity and water) are part of the standard features in each house.

There are 18 serviced suites consisting of 4 standard suites, 4 superior suites, 2 executive suites, 4 deluxe and 4 premium deluxe suites. All suites have appliance fitted kitchenettes, a closet with full length mirrored doors, writing desks, wired and wireless internet and terrestrial, satellite and pay per view flat screen television.

The GGOH Food & Beverage team assist guests who need groceries for self-catering. They help guest prepare a list of items they require, within their advised budget, and have the items delivered to their suite, apartment or executive house. The complete grocery shopping service includes preparation of ingredients by a member of the cuisine team, to make self-catering session truly hassle free.

### **Bar and Restaurant**

This 40 seater restaurant overlooks the picturesque swimming pool. The Restaurant provides an intimate atmosphere for lunch and dinner experience. With an array of delectable dishes, sumptuous salads and divine desserts, it offers food for every mood and occasion.

Notable among the menu are Shrimp Cocktail – a hors d’oeuvre of spicy shrimps in an aromatic cocktail sauce, sublime Chicken Aurora – a delicately spiced serving of boneless chicken, in a creamy mushroom and carrot sauce, served with sauté potatoes or curried rice and an unforgettable Fish Menuiniere – fish fillet in a garlic-lime sauce, together with pineapple rice. Another unique feature is a rich menu called Black Lives Matter – a rich chocolate dessert that takes clients on another journey of culinary and gastronomic discovery.

The Restaurant also provides Buffet services for the working class who want a change to a reasonably priced luxury location.

### **Conference and Meeting**

The meeting room is set up to accommodate up to 20 people for board meetings, but is also easily reconfigured for other uses. The 2 Conference rooms with seating capacity of 40 each have audio-visual facilities and Internet services.

GGOH Courtyard is used as a Car Park. Outdoor events are therefore not possible and as such request for such services are turned down.

### **Fitness Centre**

With industry-leading fitness equipment, GGOH’s state-of-the-art fitness facilities provide the perfect opportunity to get in shape, and stay in shape. Opened 7 days a week, the gym has membership plans varying from individual monthly to corporate annual memberships. Residents of GGOH have complimentary use of the gym.

A team of experienced fitness coaches guide clients through a systematic regime of training, advice on the most effective weight loss, muscle toning, muscle gain and cardio programs. They monitor client's progress carefully, and vary the regimes accordingly to fitness expectations.

### **Health Spa**

GGOH's Spa provides a distinctive combination of beauty services and body therapy. The tranquil spa environment offers guests an opportunity to pamper both body and senses. Experienced beauty therapists provide guidance to help clients choose the appropriate therapy.

Clients can take a relaxed bath in a Jacuzzi, and enjoy Swedish massage to feel energized. It's full body super scrub, followed by a thermal clay mud with foam wash and body butter massage leaves a client in a blissful state of relaxation. The signature Facial treatment combines double cleansing, double exfoliation and extra extractions with a blissful micro-buff back polish, and is great for clogged pores, dull lifeless skin and fine lines. Manicure and pedicure treatments, together with styling by hair stylists, nail technicians and make-up artists give clients a dazzling appearance and blooming radiance.

The Spa also offers male grooming services. One can expect a look that is sharp and refined from barbers and stylists. The Groom Facial, with its customized double mask, exfoliation, steam treatment, and face and neck massage, is an absolute must before that once-in-a-lifetime occasion, all in all- a truly royal spa experience.

The Spa Boutique retails skincare, make-up and hair products from premium brands. Also available here are top brands in male grooming. The boutique is the reception for bookings, appointments and information on spa services. The Spa Gift Certificates are also sold at the reception. Spa assistants help clients select the appropriate spa gift treatment or customize a unique one.

### **Business Centre**

GGOH Business Centre handles any Secretarial service from photocopying, printing (black and white and colour), lamination etc. GGOH in addition operate the following business lines: Swimming, Laundry and Patisserie.

## **MANAGEMENT TEAM**

GGOH is managed by the following management team:

### **Shareholder: Asebu Amanfi**

Asebu Amanfi, a self-styled successful businessman, studied Civil Engineering at KUMASI LEGON. He started his career with an IT Consulting Company in the United States after securing an opportunity to work in an exchange programme. He later joined an IT Company in India before branching into IT accessories dealership. He successfully owned and managed this business and made good money until he met his friend, Asebi Boakye. In a conversation with the friend, he realised that they both have a passion for the hospitality business.

### **Shareholder: Asebi Boakye**

Asebi Boakye is a highly successful entrepreneur and business mogul who studied Graphic Designing at KUMASI LEGON. He left for the USA just after school and started a car

export and import business. He also undertook short courses on entrepreneurship and mentorship in a business school in the United States.

**Marketing Manager: Abdulai Alhassan**

Abdulai Alhassan is an experienced Business Development/Marketing professional with several years of Service and Product development experience gained in Multi-national organisations with increasing level of seniority. He has a Bachelor of Science degree in Economics and also holds an MBA in Finance. He also has expertise in Trade valuation/classification of goods and general cargo surveys, customer service training, motivation, research and development, resource planning, performance monitoring and review.

**Finance Manager: Nutifafa Amenuveveye**

Nutifafa Amenuveveye is a Chartered Accountant (CA) and has obtained professional experience from both public practice and industry. He managed the day-to-day activities of the accounting and finance department of a key player in the IT business sector. He also spent five years in an International audit practice, where he obtained an in-depth understanding of both internal and external auditing procedures and issues, both locally and on the international sphere. He is a seasoned trainer and teacher with a track record of delivering excellent training courses.

**HOSPITALITY INDUSTRY IN GHANA**

Ghana's hospitality industry is 4th in ranking for profitability in Africa. Ghana is located on the West Coast of Africa between Cote d'Ivoire and Togo. Although the country has a good economy, aspects of the hospitality industry are rather expensive, especially hotel accommodation and internal and external flights. The reason they are expensive is due to the cost of electricity and water and Investors need to recoup their investment as soon as possible. However, since there are a lot of international travelers who fly into Ghana for training and meetings, this has become a serious market for Ghana.

One of the main reasons for the growth in the hospitality business is the growth of the mining industry in Ghana. Workers who come into the country to work in the local mines and galamsey (illegal mining) business are starting to look for food and entertainment in these areas, which is creating a spin-off business boom. The natural resource mining has brought wealth domestically, creating a larger middle class, which is rare in Africa. Other reasons why this industry has taken off are the stable government and economy, which infers more safety, and the growing middle class in Ghana. Due to the tourism potential and the ability for growth, large hotel chains opened hotels in the year 2016 in Ghana, with other chains opening hotels in 2017. The government has intensified its efforts to clamp down on illegal mining due to environmental concerns and with the support from Civil Society Organisations, this economic activity has seen a downturn in outlook.

The advantages right now for Ghana are that the economy is in a serious growth trajectory. New hotels are being built, investments are being received, and domestic and international travels have been on the rise. All of these aspects are conducive for a large hospitality future. Ghana earns almost the same amount of business from international travellers as it does from domestic travellers. This means money is being spent and earned equally in Ghana, which is a positive sign.

Additionally, Ghana has a variety of tourist attractions such as natural attractions, parks and waterfalls, and they also have castles that can be visited. For foreign travellers, Ghana is also a safer way to visit Africa, since it is not known for high levels of corruption or violence, and the Ghanaian people are friendly and outgoing in helping others. They have

love for foreigners. Ghana's democracy has been stable since 1992 and the country practise multi-party democracy.

The hospitality industry in Ghana covers a diverse range of establishments providing hospitality services in the form of accommodation, food and beverage, conferencing and entertainment. The industry is a vital and important component of the Ghanaian economy. It has gained popularity over the past decade when Ghana became the gate way to Africa and has contributed immensely to the Ghanaian economy.

The accommodation subsector includes hotels, Motels, Apartments and similar places providing short-term accommodation which covers all aspects of the provision of accommodation at camping grounds, caravan parks, guest and holiday houses, flats, student residences and youth hostels.

The hotel subsector comprises hotels, resorts and serviced apartments. Hotels and resorts are establishments which are licensed to operate a public bar and which provide accommodation on a room/suite basis, with a bath/shower and other facilities in most guest rooms, but which do not have full cooking facilities (i.e. hot plates and oven/microwave) in most guest rooms.

Serviced apartments are establishments which mostly comprise self-contained units at the same location and which are available on a unit/apartment basis to the general public for a minimum of one night. The units have full cooking facilities (i.e. hot plates and oven/microwave), refrigerator and a bath/shower and other facilities. All bed linen and towels are supplied and daily servicing (cleaning and bed making) is available through the on-site management.

The subsector also includes private hotels and guest houses with facilities which are not licensed to operate a public bar and which provide accommodation on a room/suite basis, with a bath/shower and other facilities in most guest rooms, but which do not have full cooking facilities (i.e. hot plates and oven/microwave) in most guest rooms.

## **MARKETING STRATEGY**

The Marketing Manager Mr. Abdulai Alhassan penned down the following as their marketing strategy.

*GGOH will aggressively market to both international and local clients. At the moment our client base is heavily tilted towards the needs of foreign clients especially Americans who are used to the Villas and Apartment hospitality services.*

*Our customers are now looking for a different lodging experience that is less expensive in a beautiful ambience. There is therefore the need to build enough suites to meet the increasing demand from our patrons. GGOH will therefore like to secure funding to expand facilities to cater for the need for at least 60 suites and a 100 capacity multipurpose conference facility.*

*The suite will cost a little more than what is currently being charged but we will offer our customers all the services they need to make their stay memorable. We will offer a food shop that will be able to take special orders daily. Each evening, guests can gather in the GGOH's compound where there is a swimming pool, drinks and light music.*

*The competitive edge of GGOH is the service. Our team is properly service oriented and some among the management team have many years' experience in service delivery.*

*Each member of the management team has had training in customer service. The staff members have also been trained on all aspects of customer service to make our guest feel pampered.*

*Customer service is an issue of concern for visitors to third world countries like Ghana and this has been noticed by management and has been placed on a high priority. The culture of not paying attention to details sometimes upset foreigners. Giving preference to foreigners over locals also upsets the middle class.*

*The Restaurant will add local dishes to the menu. GGOH will also consider outsourcing the non-core business units and concentrate on rooms, bar and restaurant activities. The Car Park will be converted to an outdoor conference set up to cater for large capacity events. Customers will be asked to park outside the GGOH.*

## **GGOH'S FINANCIALS**

Cheetah Investments Limited (CIL) in January 2017 contracted a foreign currency loan of \$3,000,000 from ABSTRACT Bank Ghana Limited (ABGL) to complete the GGOH building project. This was after the initial promoters, Asebi Boakye and Asebu Amanfi, had invested \$1,000,000 (\$500,000 each) in the GGOH building project. However the project took two more years before completion.

Meanwhile the interest and principal payments accrued before the business could commence and also earn enough to pay back its financial obligations. This loan has accrued to a total of \$3,500,000 as at December 2018 when the GGOH Project was completed. To secure enough funds to pay back part of the loan, CIL has proposed to sell three (3) of the nine (9) villas to ABSTRACT Investments Ltd (AIL), an investment wing of ABGL for \$1,000,000. AIL has proposed to dispose of the three Villas to ready buyers at \$400,000 per unit. CIL having the first right of purchase has negotiated with AIL to buy back the three Villas at \$350,000 per unit, a total of \$1,050,000 if after two years, there is no ready buyer.

Operations for the first year have been very difficult. To maintain good customer service, Management decided to purchase supplies from first class groceries and supermarkets. These are mostly purchased on cash and carry basis. The GGOH Management System has no inventory component. The store keeper uses both manual and excel spreadsheet to manage inventory items.

The Rooms, Food and Beverages components of the GGOH Management System have inadequate controls over access rights. GGOH had struggled within the year 2019 to pay salaries regularly because of cash flow challenges. ABGL in consultation with their shareholders and the promoters of GGOH, decided to freeze interest payment for the year 2019 and spread the interest payment over the remaining credit years thus extending the period from 5 years to 6 years.

### **Assumptions**

The Finance Manager, Nutifafa Amenuveveye has prepared the following financial projections based on the 2019 actual financial performance. The underlying assumptions are:



The year 2020 financial performance would be significantly different from 2019 financial results. This is as a result of effective and efficient internal control systems to be put in place by management. For example occupancy rates and revenue for the years 2020 to 2025 are as follows:

### Rooms

The rooms are currently made up of 31 with 50 beds. To be very conservative, he used the average occupancy rate of 55% to project revenues for rooms for the years 2020 to 2025. Below is detailed occupancy rates per day used per room:

### OCCUPANCY RATE

	Rate							
#	Rooms	\$	2020	2021	2022	2023	2024	2025
4	Deluxe	180	50%	50%	55%	65%	65%	65%
4	Premium	160	40%	45%	50%	60%	60%	60%
4	Standard	100	60%	70%	70%	75%	75%	80%
4	Superior	120	70%	70%	70%	70%	70%	70%
2	Executive	160	70%	70%	70%	70%	70%	70%
2	Apartment	300	40%	40%	40%	40%	40%	40%
2	Executive Deluxe	450	20%	20%	20%	20%	20%	20%
9	Villa	400	55%	55%	55%	55%	55%	55%

This will translate into total revenue of \$1,396,656 in 2020. This will rise over the years until the expansion project becomes operational in 2025. The increase year on year will rise significantly as more rooms are added.

The above targets will be achieved through a concerted marketing strategy detailed in a comprehensive marketing plan.

### Bar and Restaurant

Bar and Restaurant income is made up of Food and Beverages, Events i.e., Conferences and Meetings and Pool Bar Sales. Income from Bar and Restaurant is projected to be 17% of Room Revenue. This is because the performance of this business unit depends on occupancy. The first year 2019 figures suggests that Food and Beverages Income will be 40% of Bar and Restaurant. By the same projections, Events – Conferences and Meetings income is expected to be 50% of Bar and Restaurant income. Also Pool Bar Income is projected to be 20% of Events – Conferences and Meetings income.

Events – Conferences and Meetings income is related to income generated by Bar and Restaurant during conferences and meetings. To attract more clients, conference and meeting rooms are for free and all catering are done by the Bar and Restaurant unit. With the expansion of facilities expected to be operational in the year 2025, income from this business unit will increase significantly.

Pool Bar stock is well patronised during Happy Hour weekly event organised by GGOH on Friday evenings. Many residents in GGOH's catchment area have made the Pool Bar a destination of choice during evenings.

## Other Income

Other Income is made up of the following: Health Spa, Patisserie, Fax, Gym, Internet Cafe, Laundry, Printing, Swimming, Photocopy and Buffet. The assumptions for the above business units are as follows:

<b>Business Unit</b>	<b>Projection Basis</b>
<b>Health Spa</b>	The Spa business unit will be outsourced in the year 2020 to one of the already established companies to run an outlet at GGOH and pay a monthly rent of \$200.
<b>Patisserie</b>	Patisserie income is projected to be 7% of Bar and Restaurant income. Patisseries are mainly served for breakfast and so are directly linked to occupancy.
<b>Fax</b>	Insignificant
<b>Gym</b>	Gym Income is projected to be \$566.67 per month. Gym service is given out as complimentary for room guest. Income is therefore expected from members of the Gym Club.
<b>Internet Cafe</b>	Internet service is also given as complimentary except for walk-in clients. It is however expected that income from this business unit will be \$33.33 per month.
<b>Laundry</b>	At the moment most of the rooms have their own Laundry Machine.
<b>Printing</b>	Insignificant
<b>Swimming</b>	Swimming income is expected to generate \$625 per month. There will be a package for school children to learn how to swim during weekends and holidays. With an Olympic trainer as the instructor, we expect to generate enough funds to take care of the monthly cost of operations.
<b>Photocopy</b>	Insignificant
<b>Buffet</b>	Weekend buffet modeled along the same business line as Happy Hour is expected to start in 2020. This is expected to bring in an income equivalent to 8.3% of Bar and Restaurant revenue.

## General and Administrative Expenses

General and Administrative Expenditure assumptions are based on 2019 figures.

<b>Expenditure</b>	<b>Projection Basis (Average)</b>
Legal fees	\$2,000 per month
Miscellaneous Expenses	\$1,000 per month
Wellness Expense-Pool	\$100 per month
Facilities Expense-Laundry	\$500 per month
Facilities Expense-Plumbing	\$500 per month
Facilities Expense-Electricals	\$500 per month
Building Repairs & Maintenance	\$3,000 per month
Facilities Expense Toiletries	\$1,300 per month
Cleaning	\$800 per month
Water	\$400 per month
Electricity	\$2,500 per month
Fuel Expense (Genset)	\$2,500 per month
Facilities Expense - Other	\$1,000 per month

Wellness expense- Health Spa	\$83.33 per month. This expenditure will be incurred if shareholders decide to run the spa as a business unit
Wellness Expense- Gym	\$300 per month
Wellness Centre Expense - Other	\$83.33 per month
F& B Expense- Banquets	\$83.33 per month
Patisserie Expense	50% of patisserie income
Other Kitchen Purchases	\$100 per month
Food	50% of bar and restaurant income
Beverages	33% of food expenditure
Food & Beverage Expense - Other	7% of food expenditure
Commissions- Room revenue	\$1,400 per month
Transportation	\$800 per month
Communications	\$1,200 per month
Donations	\$300 per month
Printing & Stationery	\$1,100 per month
Insurance Premiums	\$4,000 per month
Fuel Expense (Staff Bus)	\$500 per month
Employee Meals	\$600 per month
Employee Medical	\$600 per month
Payroll	\$14,950 per month
Vehicle Repairs & Maintenance	\$400 per month
Marketing	\$1,200 per month
Newspapers	\$50 per month

### Payroll

GGOH is expected to reduce the number of staff from 78 to 51 for efficient running of GGOH. The following are the category of staff:

#	Category of Staff
1	Marketing
2	Accounts
1	Cashier
2	Night Auditor
1	IT
1	Marketing
3	Front Desk
1	Chef
5	Cook
6	Waiter
2	Steward
1	Bar Man
6	Room Attendant
5	Cleaner
1	Maintenance Officer
2	Driver
2	Wellness

2	Concierge
4	Security
3	Laundry
51	

**AVERAGE EXCHANGE RATE:**

2016 - \$1 = GHS4.20

2017 - \$1 = GHS4.50

2018 - \$1 = GHS4.80

2019 - \$1 = GHS5.60

2020 - \$1 = GHS5.70

2021 - \$1 = GHS5.90

2022 - \$1 = GHS6.10

2023 - \$1 = GHS6.60

2024 - \$1 = GHS7.20

2025 - \$1 = GHS7.50

### **Unseen material (Additional Information)**

Officials of ABGL are concerned over the lack of adequate controls and proper governance structure at GGOH and have indicated that they might be compelled to take over the running of the business to ensure the loan is paid back. Key among their recommendations are:

1. Development of a binding code of ethics to be observed by all staff including management;
2. Look for an Institutional Investor to commit funds (equity and or convertible debt) that could be used to service the debt;
3. Institute good corporate governance principles and
4. Prepare a new business plan incorporating new assumptions based on the 2019 actual financial performance.

The initial promoters of CIL also intend to embark on an expansion project which involve building new hotel block of 60 standard rooms and a 100 capacity multi-purpose conference facility which provides a new videoconferencing facility to attract more corporate clients and institutions. This they believe will be an opportunity to increase the business profitability and cash flow. It will also give guests a wide range of choice from luxury apartments and suites, family stay villas and a simple standard room thus catering for the rich, middle class and low income client base. This extension project is estimated to cost approximately \$3,450,000.

It is against this background that the shareholders of CIL seek a strategic partner with the financial resources to provide financing options to make it possible for their dream to be realised.

### **Funding Options**

The following are funding options available to any investor interested in partnering GGOH to realise its dream:

- a) Pay off the loan of \$3,500,000 with ABGL for a 45% equity share in GGOH.
- b) In addition to option (1), embark on the expansion project costing \$3,450,000 for a further 45% shares in the company bringing the total to 90% controlling interest in GGOH.

**NOTE: IGNORE THE EFFECTS OF COVID IN ALL YOUR ANALYSIS**

## SECTION A

- 1) A mission statement can have several different purposes. In reference to the mission statement of GGOH, explain how Management can make it relevant to the future success of the organisation. **(10 marks)**
- 2) The external environment within which GGOH operates has an influence on its financial position and financial performance both now and in the future. Using PESTEL analysis, discuss the view that GGOH might fail to honour its financial obligations. **(10 marks)**
- 3) With the increasing competition in the hospitality industry, GGOH must adopt market development strategies to stay in or ahead of the competition. Apply Ansoff's Product/Market Growth matrix to assess the extent of the potential market development opportunities available to GGOH. **(10 marks)**
- 4) The Shareholders of GGOH decided that they will at all times maintain four individuals as members of the Board and the Chairmanship will alternate between the two shareholders every two years. This could be a potential for conflicts between the shareholders.

### Required:

- a) How can effective collaboration help them achieve the goals and objectives of GGOH? **(10 marks)**
- b) Advise the shareholders on the merit and demerits of their decision not to employ a Managing Director taking into consideration their peculiar circumstances. Highlight ethical issues that might arise. **(10 marks)**

**(Total: 50 marks)**

## SECTION B

- 5) In reference to the Ghana Code of Best Practices for Corporate Governance and UK Corporate Governance Code, advise the shareholders of GGOH on how they could improve on governance in the organisation. **(10 marks)**
- 6) As a Business Advisor, you have been contracted by Management of GGOH to prepare a Business Plan to meet one of ABGL's recommendations. For the purpose of this examination, you are required to prepare an extract based on the following structure:
  - Executive summary
  - Body of the report
    - Business description
    - Business environment analysis
    - Industry background
    - Competitor analysis
  - Operating plans
    - Marketing Plan
  - Management summary
  - Financial plan (You are expected to incorporate new assumptions based on the 2019 actual financial performance). **(20 marks)**

7) You have been asked by the Finance Manager to assist in preparing financial projections to convince ABGL that the loan will be paid within the period specified.

**Required:**

i) In reference to IFAC suggested model for dealing with ethical conflicts and using your judgement, explain how you will undertake this assignment with integrity. **(5 marks)**

ii) Assess the impact of Transaction risk on the ability of GGOH to repay its loan with relevant calculations **(5 marks)**

8) Assume a 10% interest on the outstanding loan and 22% Corporate Tax and calculate:

i) Operating Gearing and

ii) Financial Gearing

Assess how these ratios could impact on the decision of an Investor to invest in GGOH.

**(10 marks)**

**(Total: 50 marks)**

**APPENDIX**

	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
	\$	\$	\$	\$	\$	\$
<b>INCOME</b>						
<b>Rooms</b>	<b>1,396,656.00</b>	<b>1,419,120.00</b>	<b>1,443,940.00</b>	<b>1,500,880.00</b>	<b>1,504,992.00</b>	<b>1,508,180.00</b>
Food and Beverages	94,972.61	96,500.16	98,187.92	102,059.84	102,339.46	102,556.24
Conferences and Meetings	118,715.76	120,625.20	122,734.90	127,574.80	127,924.32	128,195.30
Pool Bar Sales	23,743.15	24,125.04	24,546.98	25,514.96	25,584.86	25,639.06
Health Spa	2,400.00	2,400.00	2,400.00	2,400.00	2,400.00	2,400.00
Patisserie	16,620.21	16,887.53	17,182.89	17,860.47	17,909.40	17,947.34
Gym	6,800.04	6,800.04	6,800.04	6,800.04	6,800.04	6,800.04
Internet Café	399.96	399.96	399.96	399.96	399.96	399.96
Swimming	7,500.00	7,500.00	7,500.00	7,500.00	7,500.00	7,500.00
Buffet	19,706.82	20,023.78	20,373.99	21,177.42	21,235.44	21,280.42
	<b>290,858.54</b>	<b>295,261.71</b>	<b>300,126.68</b>	<b>311,287.49</b>	<b>312,093.48</b>	<b>312,718.36</b>
<b>TOTAL INCOME</b>	<b>1,687,514.54</b>	<b>1,714,381.71</b>	<b>1,744,066.68</b>	<b>1,812,167.49</b>	<b>1,817,085.48</b>	<b>1,820,898.36</b>
<b>EXPENSES</b>						
Legal fees	24,000.00	24,000.00	24,000.00	24,000.00	24,000.00	24,000.00
Miscellaneous Expenses	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00
Wellness Expenses	6,799.92	6,799.92	6,799.92	6,799.92	6,799.92	6,799.92
Facilities Expenses	45,600.00	45,600.00	45,600.00	45,600.00	45,600.00	45,600.00
Building Repairs & Maintenance	36,000.00	36,000.00	36,000.00	36,000.00	36,000.00	36,000.00
Cleaning	9,600.00	9,600.00	9,600.00	9,600.00	9,600.00	9,600.00
Water	4,800.00	4,800.00	4,800.00	4,800.00	4,800.00	4,800.00
Electricity	30,000.00	30,000.00	30,000.00	30,000.00	30,000.00	30,000.00
Fuel Expense (Genset)	30,000.00	30,000.00	30,000.00	30,000.00	30,000.00	30,000.00
F& B Expense- Banquets	999.96	999.96	999.96	999.96	999.96	999.96
Patisserie Expense	8,310.10	8,443.76	8,591.44	8,930.24	8,954.70	8,973.67



Other Kitchen Purchases	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Food	145,429.27	147,630.86	150,063.34	155,643.74	156,046.74	156,359.18
Beverages	47,991.66	48,718.18	49,520.90	51,362.44	51,495.42	51,598.53
Food & Beverage Expense - Other	10,180.05	10,334.16	10,504.43	10,895.06	10,923.27	10,945.14
Commissions- Room revenue	16,800.00	16,800.00	16,800.00	16,800.00	16,800.00	16,800.00
Transportation	9,600.00	9,600.00	9,600.00	9,600.00	9,600.00	9,600.00
Communications	14,400.00	14,400.00	14,400.00	14,400.00	14,400.00	14,400.00
Donations	3,600.00	3,600.00	3,600.00	3,600.00	3,600.00	3,600.00
Printing & Stationery	13,200.00	13,200.00	13,200.00	13,200.00	13,200.00	13,200.00
Insurance Premiums	48,000.00	48,000.00	48,000.00	48,000.00	48,000.00	48,000.00
Fuel Expense (Staff Bus)	6,000.00	6,000.00	6,000.00	6,000.00	6,000.00	6,000.00
Employee Meals	7,200.00	7,200.00	7,200.00	7,200.00	7,200.00	7,200.00
Employee Medical	7,200.00	7,200.00	7,200.00	7,200.00	7,200.00	7,200.00
Payroll	179,400.00	179,400.00	179,400.00	179,400.00	179,400.00	179,400.00
Vehicle Repairs & Maintenance	4,800.00	4,800.00	4,800.00	4,800.00	4,800.00	4,800.00
Marketing	14,400.00	14,400.00	14,400.00	14,400.00	14,400.00	14,400.00
Newspapers	600.00	600.00	600.00	600.00	600.00	600.00
<b>TOTAL EXPENSES</b>	<b>738,110.96</b>	<b>741,326.84</b>	<b>744,880.00</b>	<b>753,031.36</b>	<b>753,620.02</b>	<b>754,076.40</b>
<b>EBIT</b>	<b>949,403.58</b>	<b>973,054.87</b>	<b>999,186.68</b>	<b>1,059,136.13</b>	<b>1,063,465.46</b>	<b>1,066,821.96</b>

## SOLUTION TO QUESTIONS

### SECTION A

#### QUESTION ONE

- a) To ensure that strategic planning decisions are consistently based on the need to provide unforgettable home away from home lifestyle experience to their guests and all who find themselves on its premises.
- b) Management should translate this broad mission or intentions and purposes into corporate objectives. This should be specific, measurable, agreed, realistic and time bound. For example, customer complaints should be attended to within 2 minutes. Beyond that customers should be informed and given the reason why his or her complaint cannot be handled expeditiously. Customers are always welcomed with broad smiles; rooms are cleaned regularly with customers' permission, regular supply of utilities, arrangements for holiday seekers to visit tourist sites etc.
- c) Communication of Mission - Management should ensure that everyone within the organisation is aware of the purpose and direction of the company and that they all buy into the mission of the company.
- d) Every employee beside the management team should be trained in customer service. This should be a priority because the waiters and waitresses, front desk and cleaners interface directly with customers.
- e) Ensuring that good customers experience should find place in the ethical code of the company with sanctions for breach of standards of good behaviour towards customers. Customer service awards could be instituted to reward staffs who keep to the code of good behaviour.
- f) Management should ensure that external stakeholders and the general public understand and support their mission. They should strive to improve on their achievements in helping customers to have an unforgettable customer service experience.

(Any 5 points should attract 2 marks each.)

(10 marks)

#### EXAMINER'S COMMENT

The question required candidates to explain how management of GGOH could make its mission statement relevant to the future success of the organisation. The candidates answered the question by using SMART (Specific, Measurable, Appropriate, Relevant and Time bound) model. Mission statement is not the same as company's objectives. A very simple application question but many candidates did not do well.

#### QUESTION TWO

- a) **Political** - Ghana's democracy has been stable since 1992 and the country practise multi-party democracy. This is an advantage since investors always look for a stable environment to invest. This factor if well exploited could ensure that GGOH's investment is safe and to honour its financial obligations. The clampdown on illegal mining might not affect the financial performance and position of GGOH especially where their client base is not the Chinese community. GGOH should strategies' to attract a wide variety of foreigners.

- b) **Economic** - The natural resource mining has brought wealth domestically, creating a larger middle class. Stable government and economy have produced a growing middle class. Ghana's economy is in a serious growth trajectory attracting more investors. Ghana earns almost the same amount of business from international travellers as it does from domestic travellers. This means money is being spent and earned equally in Ghana, which is a positive sign. This could lead to an increase in occupancy rates and increase free cash flow necessary for the Hotel to honour its financial obligations. The serious drawback could be expensive room rates and flights. This has the potential to reduce occupancy rates especially with competition from new Hotels being built. The Hotel Industry might experience diminishing returns over time when the competition reaches saturation point. Another factor is the value of the currency over the years. GGOH should set a competitive room rates to increase occupancy.
- c) **Social and Cultural** - a growing middle class and love for foreigners. This could promote domestic tourism and leisure to complement foreign guests. Customer service enhancement could increase patronage. The culture of not paying attention to details sometimes upset foreigners. Giving preference to foreigners over locals also upsets the middle class.
- d) **Technological** - The GGOH Management System has no inventory component. The store keeper uses both manual and excel spreadsheet to manage inventory items. The Rooms, Food and Beverages components of the GGOH Management System have inadequate controls over access rights. The Hotel should automate its operations to improve customer experience. Weak internal controls will lead to revenue leakage thus affecting financial performance and position.
- e) **Ecological** - One of the main reasons for the growth in the hospitality business is the growth of the mining industry in Ghana. Workers who are coming here to work in the local mines and galamsey (illegal mining) business are starting to look for food and entertainment in these areas, which is creating a spin-off business boom. The natural resource mining has brought wealth domestically, creating a larger middle class, which is rare in Africa. Destruction of the environment would have its own ecological implications, and this could affect the business prospects of GGOH. However, GGOH's clientele base seems not to be dependent on foreigners coming to the country to mine.
- f) **Legal** - Because of the menace of Galamsey, there is the high possibility that the government would come out with a law banning Galamsey and this would affect the viability of the hotel business in Ghana. The government has intensified its efforts to clamp down on illegal mining due to environmental concerns and with the support from Civil Society Organisations, this economic activity has seen a downturn in outlook.

(2 marks each for 5 points from the six points)

(10 marks)

#### EXAMINER'S COMMENT

This question required candidates to assess GGOH environment using PESTEL model and how those factors might affect its ability to honour the company's financial obligation. The question was well answered by all the candidates who attempted it.

### QUESTION THREE

#### **Market penetration strategy**

With a market penetration strategy, GGOH would seek to increase its occupancy rate. This strategy is relevant because new hotels are springing up and competition is becoming keener. This calls for aggressive marketing by:

- i) Persuading existing customers to stay for more days.
- ii) Persuading or attracting new customers through advertising or special promotional offers. This is another strategy based on trying to increase total market sales demand.
- iii) Persuade individuals to switch from using other hotels to GGOH. This is a competitive strategy based on winning a bigger market share. This strategy has the obvious risk, however, that competitors will retaliate with their own marketing initiatives to win customers.

**(3 marks)**

#### **Market development strategy**

Expanding its geographical base by:

- i) Instead of expanding existing facilities, it could set up a new hotel in the mining community.
- ii) Attract corporate clients by offering slightly differentiated room rates.

**(2 marks)**

#### **Product development strategy**

The decision to embark on an expansion project which involve building new hotel block of 60 standard rooms and a 100 capacity multi-purpose conference facility which provides a new videoconferencing facility to attract more corporate clients and institutions is a product development strategy. This has growth potential since the existing luxury rooms might not appeal to the lower end of the middle class.

**(2 marks)**

#### **Diversification strategy**

Diversification is a strategy of selling new products in new markets. A distinction can be made between:

*concentric diversification* (also called related or horizontal diversification), which means that GGOH could acquire a tourist site as part of its client's package instead of building new rooms thus using its experience in the hospitality industry to manage the tourist site or

*conglomerate diversification*, which means that could invest in an unrelated venture like educational institution to reduce its overall risk.

**(3 marks)**

**(10 marks)**

### EXAMINER'S COMMENT

The question requires candidates to apply Ansoff's Product/Market Growth Matrix in assessing growth opportunities available to GGOH. A lot of candidates performed very well with this question while a few did poorly. Those who performed poorly only used Market Penetration and/or Market development while the question requires application of the full matrix.

## QUESTION FOUR

a)

**Teamwork:** working together to solve a problem or complete a task.

Brainstorming and ideas-sharing: gaining input from each member of the board and pooling knowledge.

**Sense of purpose:** there should be a reason for working together, and doing so should benefit each board member as well as GGOH

**Equality:** effective collaboration treats everyone involved as equals, thus encouraging ideas from each Board member and all levels within the organisation.

**Motivation:** workplace collaboration plays a key role in developing satisfaction and happiness, and therefore motivation, especially among Board members. This is because it instils a sense of community within the organisation and a greater sense of belonging. This makes it easy to be driven to working towards the goals of the organisation.

**Knowledge sharing:** Collaboration increases the amount of information that is available to Board members. This could be shared, and this results in a workforce that is highly knowledgeable about the organisation for which it works.

Improved decision-making: The enhanced knowledge of the Board members, along with the ability to pool skills from across GGOH, results in more informed decision-making leading to better decisions being made.

**Improved efficiency:** The above factors allow the Board, Management and staff to carry out their own tasks with increased levels of efficiency, making for a more efficient organisation overall.

(2 marks per point)

(10 marks)

b) The two most powerful positions on the board of directors are those of chairman and chief executive officer (CEO)/managing director. These roles may be held by two different individuals. On the other hand, they may be held by the same person. When one individual holds the position of both chairman and managing director, the following are the **merits**:

- i) The person may be in a position to dominate the board and dictate the decisions that the board makes. This removes the slow pace of decision making as a result of bureaucracy.
- ii) The person may be justified on economic grounds where the cost of separating the two roles can be expensive. The company has a loan to pay and so will not need such an extra cost for now.
- iii) The company (GGOH) is not publicly listed and so will not need the scrutiny of shareholders.
- iv) The combined roles will work if their respective responsibilities as shareholders are clearly and formally defined, so that it is clear who is responsible for which aspects of the business.

### Demerits

- i) The CEO is responsible for the executive management of the company's operations. He is the leader of the management team and all senior executives

report to him. Combining the two roles would mean the Board member cum CEO is not answerable to the board for the company's operational performance. If the board takes executive decision and the Board member cum CEO is to implement then who will be blamed by the Board if the decision do not end well?

- ii) The board is responsible for giving direction to Management, and the Managing Director is responsible for the success of the company's day to day operations. Combining the two roles make it difficult to clearly define roles for Management and Board.
- iii) Taking a loan from the bank makes it mandatory for GGOH to practise good corporate governance. Approval of further funding might be based on having a clearly defined role for the Board members and the CEO.
- iv) Determining the remuneration of the CEO will be a challenge since the Board member may end up determining his own remuneration.

**(Any 5 points for 2 marks for each)**

**(10 marks)**

### **EXAMINER'S COMMENT**

This question is of two parts. In the first part, candidates were asked how effective collaboration would help GGOG organisations goals and objectives while in the second part, candidates were required to advise shareholders on the merits and demerits of their decision NOT employing Managing Director based on the case study. This question was attempted by majority of the candidates, but the performance was barely average resulting in majority scoring very low marks. The reason mainly is as a result of not relating the answers to the case study. Few also deviated as they seem not to appreciate the preamble before the question. In fact, that was a lead to the question. Most candidates rather focus their answers on ethical issues ignoring the main question.

## **SECTION B**

### **QUESTION FIVE**

- UK Corporate Governance Code states that; the roles of chairman and chief executive officer should not be held by the same person. In addition, a CEO should not go on to be the chairman of the company. However, there may be a specific reason why the two roles should be combined, for example in the case of a smaller company where the cost of separating the two roles cannot be justified on economic grounds.
- No individual on the Board should have unfettered powers of decision making.
- In Ghana however, the Code of Best Practices does not go so far. The Code states that; If the two roles are separated, their respective responsibilities should be formally defined, so that it is clear who is responsible for which aspects of board business.
- If companies comply with the UK Code, a chairman will therefore be both independent and non-executive. However, this is not necessarily a requirement of good governance, and the chairman may work full time for the company. (This is

obviously the case, for example, when the same individual is both chairman and managing director.)

- The board chairman, or company chairman, is the leader of the board of directors. He or she is responsible for managing the board. Whereas codes of corporate governance have little to say about the responsibilities of the CEO, they have quite a lot to say about the role and functions of the chairman.
- The Code of Best Practices in Corporate Governance comments that the chairman plays a crucial role in ensuring good corporate governance and should ensure that the board is in “complete control” of the company’s affairs and “fully alert to the obligations to the shareholders, industry and the law.” It specifies that the chairman should be expected to: Ensure that the board meets regularly and that board meetings are conducted in a “proper manner”
- The board chairman is responsible for the effectiveness of the board, and the managing director is responsible for the success of the company’s day-to-day operations.
- The Code adds that the remuneration level for individual directors should reflect their experience and the level of responsibilities they undertake. One purpose of a remuneration package is to provide incentives for the director. Directors should be rewarded with incentives, so that they are motivated to achieve performance targets.

**(2 marks for each point)**

**(10 marks)**

#### **EXAMINER’S COMMENT**

This question required candidates to apply Ghana Code of Best Practice and UK Corporate Governance code to GGOG. The focus of the question is application of the codes to help improve corporate governance in GGOG. Surprisingly the question was poorly answered by a significant number of the candidates. The challenge mainly relates to the application answers to the question in line with the case study.

#### **QUESTION SIX**

The executive summary should include:

- What the report is about
- What the problems are
- The conclusions you arrived at
- What you recommend **(4 marks)**

Business description, which briefly explains:

- Overall mission and objectives
- History and ownership
- Products and services **(3 marks)**

Business environment analysis

- Industry background
- PESTEL analysis **(5 marks)**

- Competitor analysis
    - Who are the main competitors? **(1 mark)**
  
  - Marketing Plan
    - A brief summary of what was detailed by the Marketing Manager **(2 marks)**
  
  - Management Summary
    - Who the key management personnel are and their backgrounds **(2 marks)**
  
  - Financial Plan
    - Brief financials and assumptions **(3 marks)**
- (Total: 20 marks)**

### EXAMINER'S COMMENT

This question required candidates to prepare a business plan for GGOH for 20 marks. The high-level structure was provided in the question but sadly over 80% of the candidates were clueless as to the content of a business plan. As a result, majority of the candidates earned less than half of the allocated marks. This question had the highest marks in the paper.

### QUESTION SEVEN

i)

- Identify threats to compliance with the fundamental principles. Accountants have an obligation to identify any threat to their compliance with the fundamental principles, when it could reasonably be expected that they should be able to identify it. Threats to help present a favourable picture about the business prospects.
- Evaluate the threat. Qualitative factors as well as quantitative factors should be considered in the assessment of a threat to compliance. Insignificant threats may be ignored but others should be dealt with.
- Respond to the threat. If it is 'not insignificant', the accountant should apply appropriate safeguards, if he can, to eliminate the threat or reduce the threat to an insignificant level.
- If suitable safeguards cannot be applied, more drastic action will be needed, such as refusing to carry out a professional service, ending the relationship with a client or resigning from the job.

**(1.25 marks for each point)**

**(5 marks)**

- ii) Transaction risk is the risk that, for any future transaction in a foreign currency, the amount received or paid in domestic currency might be different from the amount originally expected because of movements in the exchange rate between the date of the initial transaction and the date of settlement (payment/receipt). **(1 mark)**



For example, transaction risk will arise if the dollar strengthens against the cedi before payment of the loan. The loan is denominated in dollars and the primary currency of GGOH is cedis. However, GGOH has US guests and so significant receipts from services could be in dollars. **(2 marks)**

The above point notwithstanding, the example below illustrates the effects of transaction risk on the operations of GGOH:

A standard room going for GHS 570 in 2020 would go for GHS 750 in 2025, making it more expensive. With a significant dollar inflow (foreign guests) this would rather be to the advantage of GGOH especially where general increase in prices do not match the depreciation of GHS. The reverse could lead to a reduction in the occupancy rate.

There is a risk that the US dollar will increase in value against the GHS before payment of loan. If the dollar strengthens in value, the cost in GHS of obtaining the dollars to pay the loan will be higher than originally expected. Volatile exchange rates increase transaction risk. Losses arising from adverse movements in an exchange rate reduce the profit on sales transactions, or increase costs of purchases. The transaction loss might even offset the amount of normal trading profit. **(2 marks)**

**(Total: 10 mark)**

#### EXAMINER'S COMMENT

This question is of two parts with preamble provided before the questions. The first part required candidate to apply IFAC suggested model to deal with ethical conflict while the second part tested Transition risk on the ability of GGOG to repay its loan with relevant calculations. Again, the general poor trend afflicted this question as well. Most candidates simply did not understand the question, and this reflected in the nature of the answers provided.

#### QUESTION EIGHT

Year	2020	2021	2022	2023	2024	2025
<b>EBIT</b>	949,403.58	973,054.87	999,186.68	1,059,136.13	1,063,465.46	1,066,821.96
<b>Interest</b>	350,000.00	350,000.00	350,000.00	350,000.00	350,000.00	350,000.00
<b>EBT</b>	599,403.58	623,054.87	649,186.68	709,136.13	713,465.46	716,821.96
<b>Tax</b>	131,868.79	137,072.07	142,821.07	156,009.95	156,962.40	157,700.83
<b>EAIT</b>	467,534.79	485,982.80	506,365.61	553,126.18	556,503.06	559,121.13
<b>EBIT</b>	0.02491	0.02686	0.06000	0.00409	0.0032	

<b>Sales</b>	0.01608	0.01749	0.03943	0.00274	0.0021	
<b>Operating Gearing</b>	1.548839	1.535499	1.521494	1.491976	1.489973	
<b>EPS</b>	0.094	0.097	0.101	0.111	0.111	0.112
<b>EPS</b>	0.039	0.042	0.092	0.006	0.005	
<b>Earnings</b>	0.039	0.042	0.092	0.006	0.005	
<b>Financial Gearing</b>	1.584	1.562	1.539	1.494	1.491	
<b>Combined Gearing</b>	2.453	2.398	2.342	2.228	2.221	Non-Scoring
<b>Operating Gearing * Financial Gearing</b>	2.453	2.398	2.342	2.228	2.221	Non-Scoring

**(Total of 60 ticks 0.15 mark for each)**

**(9 marks)**

The levels of variability in the Operating and Financial Gearing rates are low. This is a good sign for Investors to invest.

**(1 mark)**

**(Total: 10 marks)**

### EXAMINER'S COMMENT

This question required candidates to calculate operating and financial gearing for GGOH. About 97% of the candidates failed to answer this question and for those who attempted it the performance was very poor.

### LOOKING AHEAD OF FUTURE EXAMINATIONS

Candidates should read the pre-seen material carefully and come into the examination understanding the industry and the company which will be the focus of the exam. This will help candidates formulate good answers that relate to the tasks they are given. Candidates must manage their time well and make sure they do not run out of time on sections they know well. Candidates must answer what is asked, read the questions very carefully and answer what has been asked. Answers which are not applied to the case will not score high marks.