

JULY 2024 PROFESSIONAL EXAMINATIONS
STRATEGIC CASE STUDY (PAPER 3.4)
CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME

EXAMINER'S GENERAL COMMENTS

This July examination, which was the final exams diet under the current syllabus followed the general trend in the past. The exam was based on a pre-seen scenario which described PomeWine Builders Limited referred to as PBL which started as a small unquoted family business by Osman Boakye and Bortey Boakye, focused on developing housing estates for the low-income, middle-income and upper-income market segments. PBL is known for creating and delivering state-of-the-art, economically priced housing units in attractive places with contemporary facilities and well-developed infrastructure on schedule. Founded in 1989, PBL despite emerging from humble beginning, initially focusing on housing estate development became beacon of excellence, embodying the ethos of “creating homes for a lifetime, with a legacy that spans generations”.

This is a very interesting industry, and students are expected to be familiar with as part of preparation for the examination. The pre-seen was detailed and well-prepared. Candidates should have been able to provide good answers in the context of the real estate industry with presence in most of Regional Administrations in Ghana and some African countries notably Sierra Leone, Gabon, and Mali. PBL's mission remains rooted in meeting growing demand for meticulously planned housing communities within the West African sub-region. The unseen scenarios were interesting and presented some realistic questions on the industry.

The standard of the paper was extremely good with a balance of quantitative and qualitative information. The questions were clear with preambles to assist candidates. The coverage was broad and in line with the syllabus. All the questions were based on the recommended syllabus and study material of the Institute. Marks allocation followed the weightings in the syllabus and was fairly distributed to each question.

PERFORMANCE OF CANDIDATES

Performance trend is good compared with the March 2024 diet. Most candidates who failed were because of poor time management. A few candidates appeared to be ill-prepared for this examination and did not demonstrate the required level of technical and application knowledge to the case study. Overall, candidates performed very well, especially question number One (1), Two (2), three (3) and five (5). There were concerns relating to student performance in relation to question number four (4) where over 50% of candidates scored less than 40% of the total marks of 20 allocated. In many cases candidates described wrong strategic models even though the questions required specific models such as question 1d, 2c, and 3b. Model application to the case study remains a challenge to candidates resulting in losing valuable marks to achieve a pass. All answers must be applied to the case study and should bring in aspects of the pre-seen information as well as the unseen additional information 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 few 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. Candidates are therefore reminded that paper 3.4 requires a Professional Level knowledge and application. Some answers were just short and incomplete. Few candidates set their own question and answer, especially question 4b (i) and (ii) which is very strange but evidence of lack of preparation. Core knowledge of Management Accounting and Financial Management was lacking in most of the calculations done under question 4(a), which is very worrying.

NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES

Strengths

Most of the candidates attempted all the questions. Some of the candidates presented their answers in a well organised manner. Most candidates provided answers making references to the case even though some were wrong. Question 5 was well answered with most candidates demonstrating good Corporate Governance roles and responsibilities as well as the limitations of international codes or statements of principles. Most of the candidates answered the question and scored above 70% of the 20 marks allocated to it.

Weaknesses

Poor preparation by the candidates: Question 4 (a): The question was to evaluate the feasibility of expansion into Burkina Faso based on a consultant's report part of which was part of the pre-seen and unseen materials. The question was on exchange rate conversion, evaluation of the financial feasibility of the expansion using information provided by the consultant, calculation of project cost, home sales, tax implications and cost of capital. Candidates were then required to analyse and provide recommendations to the Board of PBL regarding viability of the expansion into Burkina Faso. b) Focus on additional information provided from the unseen material. The question is in two parts: (i) Calculation of ROCE, EPS and Gearing for the equity and debt issue and to comment on the impact on forecast draft financial statement at the end of the next accounting period. (ii) Candidates were to comment on alternative financing options to acquire the assets and its accounting treatment. Over 60% of candidates could not get beyond the basic calculation, indicating evidence of weak previous lower-level knowledge of Management Accounting and Financial Management. The candidates scored very low marks because the answers provided (both financial ratios calculations and explanations) 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 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, standards or frameworks.

Most candidates ignored the allocation of marks to questions which resulted in poor time management, especially question numbers (5 (a), (b), (c) and (d) and 3 (b).

Over 20% of candidates did not attempt all question which is evidence of poor time management and application of exams techniques.

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, not forgetting *challenging handwriting*. The problem of poor use of English language has featured in the previous Chief Examiners' reports. The candidates are encouraged to use language appropriately and practice questions to improve their handwriting in terms of eligibility of writing.

PomeWine Builders Ltd.

Introduction

In the vibrant landscape of Ghana's real estate industry, PomeWine Builders Ltd. (PBL) stands as a beacon of excellence, embodying the ethos of "creating homes for a lifetime, with a legacy that spans generations." Founded in 1989, PBL emerged from humble beginnings, initially focusing on housing estate development. The company which originally started as a small unquoted family business by Osman Boakye and Bortey Boakye, focused on developing housing estates for the low-income, middle-income, and upper-income market segments. The Company is known for creating and delivering state-of-the-art, economically priced housing units in attractive places with contemporary facilities and well-developed infrastructure on schedule. Over the years, the company has evolved and diversified, honing its expertise in a wide array of endeavors, including turnkey projects, comprehensive site development, encompassing road and drainage systems construction, and the installation of water and electrical distribution networks.

At the heart of PBL's enduring success lies its dedicated team of professionals, comprising both local talents and expatriates, who have consistently steered the company toward becoming Ghana's premier private housing estate developer. A hallmark of PBL is its unwavering commitment to punctual construction and the delivery of high-quality, affordably priced housing units situated in prime locations. These developments are thoughtfully integrated with essential social amenities and meticulously planned infrastructure, setting the company apart in the industry. To date, PBL has proudly delivered over 15,000 homes, each bearing the distinctive hallmarks of quality and affordability.

PBL has expanded its footprints beyond the Greater Accra Region, with a notable presence in various communities within Accra and regions such as the Western Region, Ashanti Region, and other African countries including Sierra Leone, Gabon, and Mali. Its mission remains rooted in meeting the growing demand for meticulously planned housing communities within the West African sub-region.

Notably, in 2015 PBL forged a pivotal joint venture with the Ghanaian Social Security and National Insurance Trust (SSNIT) to embark on prestigious projects in luxury home construction and major infrastructure development. This collaboration marked a significant milestone in the company's journey toward shaping Ghana's urban landscape.

Furthermore, PBL has solidified its reputation as a trusted partner in nation-building, as exemplified by its successful involvement in pivotal governmental projects, including road construction and site preparatory works for educational institutions. This track record of excellence has cemented PBL's role as a reliable contributor to Ghana's infrastructural development.

In recognition of its commitment to quality and sustainability, PBL has strategically invested in enterprises dedicated to manufacturing international-standard building materials. This strategic move has given rise to a family of esteemed companies, including PBL Concrete Products Ltd., PBL Tiles Ltd., PBL Estate Management Company Ltd., and PBL Deco Ghana Limited. These entities collectively contribute to the growth and advancement of Ghana's housing and construction industry.

PBL has consistently set the benchmark for excellence in the housing sector. Recognised for creating abodes that embody longevity and transcend generations, the company has diversified its portfolio to cater to various market segments. PBL is synonymous with delivering state-of-the-art housing units, meticulously designed and strategically located, encompassing a spectrum of housing solutions to suit diverse preferences and lifestyles.

Among the array of residential options crafted by PBL, four primary classifications stand out: detached homes, semi-detached homes, townhouses, and condominiums. Each category is thoughtfully designed to address the unique demands and desires of prospective homeowners, offering a blend of privacy, community living, and a range of facilities. This detailed exposition aims to provide prospective buyers with a comprehensive understanding of these housing classifications, empowering them to make well-informed choices that align with their individual needs and aspirations.

| | |
|----------------------------|---|
| <p>Detached Homes</p> | <p>Detached homes are standalone residential structures, typically designed for single families. These homes are not connected to any other property and offer a high degree of privacy. The design and features are usually customised to the homeowner's preferences and needs. Detached homes are ideal for those seeking a private and spacious living environment. They can be tailored to specific architectural styles and often include a yard or garden space.</p> |
| <p>Semi-Detached Homes</p> | <p>Semi-detached homes are structures consisting of two separate living units that share a common wall. Each unit has its separate entrance and often appears as a single-family home split into two. These homes provide a balance between privacy and connectedness. They are suitable for individuals or families looking for more space than an apartment but with a lower maintenance effort compared to a detached home.</p> |
| <p>Townhouses</p> | <p>Townhouses are typically multi-level homes that share walls with adjacent units, forming a row or a block of interconnected residences. Each unit has its entrance and often includes shared amenities like gardens or parking areas. Townhouses offer a blend of privacy and community living. They are suitable for individuals or families seeking a balance between a detached home and an apartment, often in urban or suburban settings.</p> |
| <p>Condominiums</p> | <p>Condominiums, often referred to as condos, are individual units within a larger residential building or complex. Each unit is privately owned, but common areas and amenities are shared among all residents. Condos provide a sense of community and often include facilities like gyms, swimming</p> |

| | |
|--|--|
| | pools, and lounges. They are an attractive option for individuals or couples seeking a low-maintenance lifestyle with access to shared amenities and services. |
|--|--|

Visible inscriptions echoing the company’s vision, mission, and values can be found at vantage points within the premises and offices of PBL.

Vision Statement: to be a transformative force in the real estate industry in Ghana and beyond, pioneering innovative solutions that transcend the ordinary.

Mission Statement: to continually innovate and create sustainable living environments that harmonize with nature, exceed expectations, and endure through generations. Committed to delivering exceptional value to customers, partners, and communities, driven by a passion for excellence and a dedication to responsible development.

Corporate Values:

- **Integrity:** We uphold the highest ethical standards in all our endeavors, fostering trust, transparency, and accountability.
- **Excellence:** We strive for excellence in every aspect of our work, from design and construction to customer service, ensuring that our projects consistently meet and exceed the highest standards.
- **Innovation:** We embrace creativity and innovation to drive continuous improvement and stay at the forefront of the real estate industry.
- **Sustainability:** We are dedicated to sustainable development, minimising our environmental impact, and promoting eco-friendly practices in all our projects.
- **Customer Focus:** Our customers are at the heart of everything we do. We listen to their needs, provide personalised solutions, and aim to exceed their expectations.
- **Legacy:** We take pride in building not just structures but legacies that stand the test of time, enriching the lives of present and future generations.

Ghana’s Real Estate Industry – A Perspective from Centre for Affordable Housing Finance in Africa (CAHF) Report

Ghana's real estate industry has emerged as a promising and lucrative market for both domestic and foreign investors. This industry's growth can be attributed to several key factors, including economic stability, rapid urbanization, favorable government policies, infrastructure development, and the thriving tourism and hospitality sector. Despite the immense potential of the sector, several challenges require urgent attention.

The Centre for Affordable Housing Finance in Africa (CAHF) champions market intelligence—data, market analytics, and research—to stimulate investor interest and to support better policy in the real estate sector in 55 African countries. The CAHF publishes annually its Housing Finance in Africa Yearbook. An excerpt of the 2022 report on Ghana can be found below:

Solutions for more affordable housing options for urban dwellers continue to be a challenge for the Ghanaian government. Despite this, Ghana's housing deficit witnessed a 33% reduction from 2.8 million (2010) to 1.8 million (2021), partly attributable to the real estate boom and a 72.8% increase in residential structures within the period.

In response to the affordable housing challenge, various organizations have made concerted efforts to increase the national housing stock. As a result, the government has committed to completing existing housing projects and undertaking new ones across the country. However, the unaffordability of housing finance is exacerbated by weakened consumer sentiments resulting from the persistent increases in fuel prices, increases in transportation fares, and rising inflation, which all undoubtedly contribute to the rise in housing prices.

A majority of housing stock is sourced from the informal economy, mainly through incremental construction. Most housing in Ghana is owner-occupied, especially in rural regions, with the highest share in the Northeast (90%). Generally, such properties lack market-related property rights, are less investible, and aren't built with housing services. The rental housing market, on the other hand, has an urban character. Greater Accra has the highest proportion of households that rent units (48%).

Urban areas are characterized by land tenure insecurity, high transaction costs, convoluted property rights, and weak institutional oversight. In terms of investment opportunities, Ghana secured a US\$75 million (GH¢604,074,572) commercial loan from the African Development Bank in October 2021 for the Ghana Infrastructure Investment Fund (GIIF) to improve the financing and development climate, including affordable housing, in Ghana. Green building requirements are specified in the Ghana Building Code (GS 1207:2018). IFC and Ghana Venture Capital Trust provide green housing finance and microfinance.

Use the link below to download the full open-access report:

<https://housingfinanceafrica.org/documents/2022-housing-finance-yearbook-ghana-profile/>

Ghana's Booming Real Estate: Trends and Hurdles

Ghana's economic growth and stability have positioned it as an attractive destination for real estate investment. The nation's steady economic growth, classified as a lower-middle-income country by the World Bank, has resulted from effective political and economic reforms. This stability differentiates Ghana from other countries in the region with higher levels of risk, making it a safe and secure environment for investors. Also, Ghana is experiencing rapid urbanisation, with its urban population growing at an annual rate of 3.6%, according to the World Bank. This urbanisation trend has led to an increased demand for housing and infrastructure, particularly in major cities like Accra, Kumasi, and Takoradi. The burgeoning middle class with higher disposable incomes has also contributed to the surge in demand for both affordable and luxury housing. Further, the Ghanaian government has implemented

several policies to attract foreign investment and stimulate economic growth. These policies include low tax rates and tax holidays, profit repatriation, and land accessibility for foreigners.

The Ghana Investment Promotion Centre (GIPC) further facilitates investment in the country. Ghana has prioritised infrastructure development, including transportation networks, power generation, and telecommunications. The expansion of road networks, new airport terminals, and port developments have enhanced connectivity and opened up new investment opportunities across the country. Ghana's growing tourism sector has become a key driver of economic growth. Celebrities and tourists flock to the country to experience its rich cultural heritage and beautiful beaches. The BBC reports that an overall annual total of between 900,000 and one million tourists visited Ghana during the Year of Return in 2019. This tourism growth has led to increased demand for accommodation facilities, creating opportunities for real estate investors in the hospitality sector. The appeal of specific neighborhoods, including Airport Residential Area, Cantonments, and East Legon, is driven by factors like accessibility, security, and proximity to amenities. These neighborhoods can experience varying levels of demand, impacting property prices and competition. However, emerging neighborhoods like East Legon Hills, Weija, and Oyibi offer significant investment potential. These areas are experiencing increased demand due to factors like commercial development, infrastructure improvements, and affordability. In terms of financing, the availability of diverse investment opportunities in Ghana's real estate sector, such as Buy-to-Let properties, property development, Rent-to-own, and land flipping, can shape the industry's competitive dynamics. However, several challenges are hindering the rate of progress in the sector. Notable among these challenges is land acquisition troubles. Despite the government's efforts to streamline land acquisition processes, there are still complexities and disputes over land ownership. Ambiguities in land titles increase disputes and higher acquisition costs, impacting overall industry competitiveness. Another challenge is the absence of a well-established regulatory framework for the real estate sector. The lack of clear regulations causes inconsistent practices, potential fraud, and disputes. Again, the cost of construction materials fluctuates in Ghana, impacting the profitability of real estate projects. For example, the Ghana Statistical Service report on inflation shows that the construction of buildings industry recorded a year-on-year producer price inflation rate of 77.8% as of September 2022. Economic factors, such as currency exchange rates and global material prices, influence these costs.

The real estate industry in Ghana has unregulated pricing schemes. There are no clear guidelines for property prices, rental rates, or service charges. Developers charges are based on production cost and demand. Such practices often lead to exploitation, especially in a country with a high housing deficit like Ghana. Moreover, the rise of online portals for real estate listings, such as GhanaPropertyFinder, HomesGhana.com, Akka Kappa, Tonaton, Jijji, Jumia, and Meqasa, has transformed the way properties are marketed and sold. These platforms provide increased transparency and accessibility to property information. Nevertheless, they also pose challenges related to authenticity and online scams, which affect trust and buyer confidence in the industry.

Another major challenge emerging in Ghana's real estate sector is money laundering. Money laundering, in the opinion of many, poses a significant threat to Ghana's real estate sector. Illicit funds obtained from criminal activities, corruption, or tax evasion funneled into the real estate market, affect property values and the integrity of transactions. Money laundering not only distorts property valuations but also undermines the transparency and credibility of the industry. Among other factors, money laundering can inflate property prices, impair veracity and trust in the sector, raise regulation barriers, and influence reputational risk.

One symptom of growth in an industry is that it becomes highly competitive. “Although the construction sector is small in Ghana, it has already become very competitive, with major players and several market entrants from Benin, Togo, Chad, Nigeria and Mali,” Edward Afenya, CEO of Trust Group told Oxford Business Group.

PBL could be said to be operating in a hypercompetitive environment. The building industry business environment in Ghana has become uncertain and dynamic with aggressive competitors constantly challenging current assumptions and methods.

PBL: Operations And Governance

The following meeting documents give an indication of the operations and governance structure of PBL.

The company’s secretary has circulated the notice of meeting invitation to the Board of Directors and other parties for an upcoming meeting as follows:

PomeWine Builders Ltd.

Head Office,
13th Koku Hill Crescent,
Osu Doku– Accra, Ghana

20/09/2023

Notice of Meeting

To: Members of the Board of Directors

Dear Directors,

I hope this message finds you in good health and high spirits. I am writing to inform you of an upcoming meeting of the Board of Directors of PomeWine Builders Ltd.

Meeting Details:

Date: 15/11/2023

Time: 10:00 am

Location: Head Office, 13th Koku Hill Crescent, Osu Doku– Accra

Agenda:

Call to Order

Roll Call and Confirmation of Quorum

Approval of Previous Meeting Minutes

Matters Arising from Previous Minutes

Executive Chair's Report

Financial Report and Review

Strategic Planning Update

Operational Updates

New Business

Adjournment

Meeting Materials:

Please find attached the following documents for your review before the meeting:

Minutes of the Previous Meeting

Executive Chair's Report

Additional materials**Attendance:**

Your presence at this meeting is of utmost importance. If, for any reason, you are unable to attend, please notify the Company Secretary, Ms. Mariama Fiagbenu at mfiagbenu@pomewine.org as soon as possible.

Remote Participation:

If you are unable to attend the meeting in person, arrangements have been made for remote participation. Please contact Mr. Akoto Obengson at aobengson@pomewine.org to coordinate your remote attendance.

RSVP:

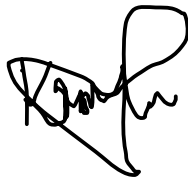
Kindly confirm your attendance or send your apologies not later than 01/11/2023 by replying to this email or contacting the Company Secretary.

Your active participation and inputs are vital to the continued success of PomeWine Ltd., and I look forward to productive discussions during the meeting.

Should you have any questions or require further information before the meeting, please do not hesitate to reach out to me.

Thank you for your commitment to the company's growth and prosperity.

Sincerely,



Ms. Mariama Fiagbenu
Company Secretary

Attachment 1: Minutes of Previous Meeting

PomeWine Builders Ltd.

Board Meeting Minutes

August 28, 2023

10:00 a.m. – 3:00 p.m.

Koku Hill Crescent,

Osu Doku– Accra, Ghana

Board members

Present:

Mr. Osman Boakye, Mr. Bortey Boakye, Mr. Siddharth Raja, Mrs. Melissa Johnson, Mr. Edwin Boadi

Absent:

Mrs. Mita Bhattachayya (excused), Mr. Addo Konadu (excused).

Quorum present? Yes

Others In Attendance:

Head, Quantity Surveying: Mrs. Felicia Botchway; Head, Projects: Mrs. Hilman Bonsu Mensah.

Others: Skander Khalil Omar, Project Consultant

Proceedings:

- Meeting called to order at 10:05 a.m. by Executive Chair, Mr. Osman Boakye.
- (Last month's) meeting minutes were amended and approved.

Executive Chair's Report:

The meeting recommended that the company should expand its operations into Burkina Faso. After a brief discussion, the Board agreed. However, the board could not agree on the most appropriate means by which PBL should use in entering Burkina Faso.

Staff members, Mrs. Felicia Botchway and Mr. Asuma Tetteh attended the African Climate Summit in Nairobi, Kenya, last month and gave a brief extemporaneous presentation. Both are invited back next year to give a longer presentation about our organisation. After a brief discussion, the Board congratulated Mrs. Felicia Botchway and asked her to pass on their congratulations to Mr. Asuma Tetteh as well.

MOTION to adopt Climate-Smart Building Technology was seconded and passed. As part of the motion, a consultant specialising in eco-friendly construction methods and materials is to be engaged.

The motion to task the Risk Committee to investigate and recommend ways to reduce capital lock-up in unpaid projects was seconded and passed.

Sierra Leone, Gabon, and Mali branches have experienced significant growth in profit over the last 3 years. The country managers of the three countries have been recommended for a special bonus. Currently, the parent company in Ghana makes major decisions, especially for budget items above GH¢500 million. Marketing and sales strategies are deployed from Ghana to these countries. Motion is tabled to decentralise operations and increase the level

of autonomy. A section of the board thinks the company will lose control and country managers will have more power which may heighten management buy-out (MBO) when political factors are ripe. The motion was subjected to a vote of 3:2 in favor of decentralisation.

Finance Committee report provided by Chair, Mrs. Mita Bhattachayya:

In her absence, the Vice Chair, Mr. Siddharth Raja explained that the external auditor, Mazarate, reviewed the organisation's interim accounts and found them to be satisfactory, in preparation for the upcoming yearly financial audit.

Mr. Siddharth Raja reminded the board of the need to pass the new compensation scheme agreed upon with labor union leaders to cushion workers from the harsh economic impact in Ghana. After extensive discussion on the impact of the decision on the financial position of the company, the Motion to implement the new compensation scheme was deferred to the next year. Mr. Siddharth Raja and Mr. Edwin Boadi were nominated to meet and renegotiate the implementation date with the labor union leaders.

The Risk committee reviewed highlights, trends, and issues from the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows. Issues including capital lock-up in projects, and the high accounts receivables require immediate attention to policies and procedures to ensure our organization receives more payments on time to ease the looming liquidity challenges. After a brief discussion of the issues and suggestions about how to increase project turnover, MOTION to accept financial statements was raised; seconded, and passed.

Board Development Committee's report provided by Chair, Mr. Bortey Boakye:

Mr. Bortey Boakye reminded the Board of the scheduled management retreat coming up in three months and provided a drafted retreat schedule for board review. MOTION to accept the retreat agenda; seconded and passed.

Mr. Bortey Boakye presented members with a draft of the By-laws paragraph that seeks to change the board dynamics in terms of size, function, duration, compensation, and conduct of meetings. Mrs. Melissa Johnson suggested a review and a resolution to change the By-laws accordingly. Mrs. Melissa Johnson suggested that Mr. Bortey Boakye first seek legal counsel to verify if the proposed change is consistent with best practices. Mr. Bortey Boakye agreed to accept this action and notify members of the outcome in the next Board meeting.

Other business:

Mrs. Felicia Botchway noted that a new road consultant expert, Mr. Skander Khalil Omar has been engaged per the previous meeting's resolution. Skander Khalil Omar will be providing consultancy services for the company in the contract between PBL and the Government of Ghana to construct a 52-kilometer dual carriage road between Adenta Municipality and Somenya. Mrs. Melissa Johnson raised a concern about how the outcome of the 2024 general election in Ghana may affect the project, especially when there is a change in government. The Risk Committee was tasked to assess the risk of the project and report in the next board meeting.

Mr. Bortey Boakye asked members for their opinions on hiring a consultant for the Climate-Smart Buildings that have been approved. (NOTE: Mr. Edwin Boadi noted that he owns an eco-building consulting firm and was concerned about a conflict of interest in his Board role

regarding this selection, and asked to abstain from this selection. Members agreed.) The majority of members agreed on Lease-or-Buy Consultants. MOTION to use Lease-or-Buy Consultants; seconded and passed.

Assessment of the Meeting:

Mrs. Melissa Johnson noted that the monthly meetings are too many and increase the company’s spending on board members. She suggested a reduction of board meetings to 6 times a year to cut down meeting allowances and other incidental benefits to the board. Additionally, she raised concerns that the past three meetings have run over the intended time slot by half an hour. She asked members to be more mindful and focused during discussions and suggested that the Board Development Chair take action to identify solutions to this issue. Chair agreed.

The meeting adjourned at 3:00 p.m.

Minutes submitted by Secretary, Ms. Mariama Fiagbenu.

Attachment 2: Executive Chair's Report for next meeting

The Executive Chair’s report is summarised in the balanced scorecard in the Exhibit 1 and 2.

Exhibit 1: PomeWine Builders Ltd. Balanced Scorecard

| ADDRESS | 13th Koku Hill Crescent | | | | | GHANA | ZIP | 233 |
|------------------|---|--|---------|-------|--|------------------------|-----|-----|
| | STRATEGIC OBJECTIVES | KEY PERFORMANCE INDICATORS | TARGETS | | INITIATIVES | | | |
| FINANCIAL | Increase company profitability | % Net profit margin | 7% | 12% | N/A | N/A | | |
| | | % Return on Capital Employed | 22% | 30% | | | | |
| | Optimize revenue and expenses | \$'b Sales to date | 30.564 | 35.05 | | | | |
| | Increase Rental income | % Occupancy rate | 50% | 80% | | | | |
| | Reduce Capital lock-up in projects | % Liquidity ratio | 5:1 | 2:1 | | | | |
| CUSTOMER | Maintain high levels of customer satisfaction | % Survey excellent score | 32% | 50% | Begin customer rewards project | \$5,000.00 initiative | | |
| | | % Call abandon rate | 16% | 10% | | | | |
| | Increase customer profitability | \$'m Revenue per client | 300 | 350 | Project to train employees on new customer rewards | 0.5 hours per employee | | |
| | | \$'000 Average new customer acquisition cost | 12 | 5 | | | | |

| | | | | | | |
|---------------------------|--|---|-----|-----|---|---|
| | Build and improve the customer network | # New customers quarter | 85 | 115 | | |
| | | % Market share | 22% | 35% | | |
| INTERNAL PROCESSES | Increase call-handling expertise | Average call-handling time (minutes) | 315 | 350 | Training for call handlers | 0.25 hours per call handler |
| | | % Scheduling adherence | 6% | 10% | | |
| | Improve service delivery | % Processes optimized | 9 | 7 | Review the project delivery process | 5.0 hours manager |
| | | % Active projects running on time | 75% | 85% | | |
| | | and on budget | 50% | 55% | | |
| LEARNING | Build a culture that encourages innovation and embraces new thinking | % Employee engagement index | 25% | 40% | Ask for and reward employee ideas that improve processes | \$25/idea, \$500/success idea |
| | | % Construction workers' acceptance of building technologies | 15% | 50% | | |
| | | % Ideas received for new/improved project delivery from employees | 10% | 30% | Write up employee innovations in the company newsletter | |
| | Nurture high-performing employees | % Employee satisfaction | 75% | 85% | Determine bonus structure for successive years of service | Groups: 5 hours manager, 1-hour manager |
| | | % Employee turnover | 20% | 5% | | |
| | Continuously improve skills and competence | # Training hours per full-time equivalent | 15 | 18 | Group to decide rewards for completed training programs | |
| | | % Employees meeting professional development requirements | 72% | 85% | | |

Exhibit 2: PomeWine Builders Ltd. Bi-annual Board Meeting Attendance Report

Note: Board meetings are held at least once a month. "X" = Absent; "√" = Present

| Board of Directors | Position | Annual Compensation GH¢'000 | Meeting Attendance | | | | | | Board Membership Committee | | | |
|------------------------|------------------------------------|--------------------------------|--------------------|-----|-----|-----|-----|-----|----------------------------|------|--------------|-------------|
| | | | Jan | Feb | Mar | Apr | May | Jun | Audit | Risk | Remuneration | Appointment |
| Mr. Osman Boakye | Executive Chair | 3,500 | √ | √ | √ | √ | √ | √ | | √ | | √ |
| Mr. Bortey Boakye | Vice Chair | 3,000 | √ | √ | √ | √ | √ | √ | √ | | √ | √ |
| Mr. Siddharth Raja | Head, Finance | 1,500 | √ | X | √ | √ | √ | √ | | | √ | √ |
| Mrs. Melissa Johnson | Independent Non-executive director | 400 | √ | √ | √ | √ | √ | √ | √ | | | √ |
| Mrs. Mita Bhattachayya | Independent Non-executive director | 500 | √ | X | X | X | X | X | √ | √ | √ | |
| Mr. Edwin Boadi | Non-executive director | 300 | √ | √ | √ | X | √ | √ | | √ | | √ |
| Mr. Addo Konadu | Non-executive director | 500 | X | X | X | X | √ | √ | √ | | √ | √ |

IMPLEMENTING EXPANSION TO BURKINA FASO

The Board of Directors of PomeWine Builders Ltd (PBL) intends to implement the expansion to Burkina Faso as soon as possible. The board has engaged a private consultant in Ouagadougou to undertake a feasibility study. The following report has been submitted by the Consultant to the Board. All financial data has been converted into Ghana cedis to facilitate the Board's decision-making.

CONSULTANT'S REPORT

The Consultant has suggested that PBL can sell at least 100 homes on a designated development site over the next four years. The purchase cost of the development site and other equipment is estimated at GH¢5 million, payable at the commencement of the first year of construction. The development site and adjoining equipment are estimated to have a scrap value of GH¢1.5 million at the end of the fourth year. PBL plans to build two types of homes, with projected annual sales for each home as indicated below:

| | Year 1 | Year 2 | Year 3 | Year 4 |
|---------------------------|---------------|---------------|---------------|---------------|
| Semi-Detached Homes sold: | 10 | 15 | 20 | 6 |
| Detached Homes sold: | 12 | 13 | 10 | 14 |

The homes will be constructed in the year of the sale, and each customer finances their home purchase through long-term personal loans from their respective banks.

The financial specifics for each type of home are as follows:

Semi-Detached Homes: Selling Price: GH¢250,000
 Variable Cost of Construction: GH¢120,000

Detached Homes: Selling Price: GH¢300,000
 Variable Cost of Construction: GH¢180,000

Selling prices and variable costs of construction are in current price terms, with anticipated selling price inflation of 7% per year and variable cost of construction inflation of 10% per year. PBL has paid the consultancy fee of GH¢470,000

Furthermore, fixed infrastructure costs of GH¢1.2 million per year in current price terms are expected. These costs encompass site preparation, new roads, gardens, drainage, and utilities. The fixed infrastructure cost will not relate to any specific home and it is projected to experience an inflation rate of 5% per year.

In terms of tax, PBL pays profit tax one year in arrears at an annual rate of 25%. To encourage investment in the real estate sector, there is a special tax arrangement that enables companies to reduce their tax burden through the granting of capital allowance.

The company can claim capital allowances on the purchase cost of the development site on a reducing balance basis at the rate of 25% per year over the four years of construction. The company can claim a balancing allowance at the end of the fourth year.

Considering PBL's financial structure, the company holds a real after-tax cost of capital of 18% per year and a nominal after-tax cost of capital of 24% per year.

ADDITIONAL INFORMATION

Extract from the Consultant's Report

As part of financing options available to purchase assets for the new business in Burkina Faso, PBL should consider raising GH¢100 million development capital either through issuing shares or by borrowing at 10% per annum, on the first day of the next accounting period. The impact on the forecast, of raising equity or issuing debt is as follows:

NOTE: The before column represents the forecast draft financial statements as at the end of the next accounting period. The following figures do not show the results of the investment of the amount raised and ignore taxation.

| | Before | After (equity issue) | After (debt issue) |
|--------------------------------|-----------------------|-----------------------------------|---------------------------------|
| | GH¢'000 | GH¢'000 | GH¢'000 |
| Non-current assets | 300,000 | 300,000 | 300,000 |
| Current assets | <u>500,000</u> | <u>600,000</u> | <u>590,000</u> |
| | <u>800,000</u> | <u>900,000</u> | <u>890,000</u> |
| Share capital of GH¢1 each | 50,000 | 150,000 | 50,000 |
| Retained earnings | <u>360,000</u> | <u>360,000</u> | <u>350,000</u> |
| | 410,000 | 510,000 | 400,000 |
| Non-current liabilities | <u>90,000</u> | <u>90,000</u> | <u>190,000</u> |
| | 500,000 | 600,000 | 590,000 |
| Current liabilities | <u>300,000</u> | <u>300,000</u> | <u>300,000</u> |
| | <u>800,000</u> | <u>900,000</u> | <u>890,000</u> |
| | | | |
| | Before | After | After |
| | GH¢'000 | (equity issue) GH¢'000 | (debt issue) GH¢'000 |
| Revenue | 650,000 | 650,000 | 650,000 |
| Cost of sales | <u>(350,000)</u> | <u>(350,000)</u> | <u>(350,000)</u> |
| Gross profit | 300,000 | 300,000 | 300,000 |
| Operating expenses | <u>(200,000)</u> | <u>(200,000)</u> | <u>(200,000)</u> |
| Profit before interest and tax | 100,000 | 100,000 | 100,000 |
| Interest | <u>(20,000)</u> | <u>(20,000)</u> | <u>(30,000)</u> |
| Profit for the year | <u>80,000</u> | <u>80,000</u> | <u>70,000</u> |

QUESTION ONE

- a) One of the core values of PomeWine Builders Limited (PBL) is to commit to *Sustainability*. They are dedicated to sustainable development, minimising their environmental impact, and promoting eco-friendly practices in all their projects.

Required:

In relation to the above statement, analyse **THREE (3)** factors and drivers of how PBL could use an environmentally driven strategy to reduce its environmental footprint and **THREE (3)** factors and drivers to reduce its social footprint. **(6 marks)**

- b) Minimising environmental impact and promoting eco-friendly practices in all projects could present ethical (moral) dilemma to PBL, especially the Accountant in relation to environmental, social and governance reporting. This might be at three levels, personal ethics, business ethics and professional ethics.

Required:

In relation to the statement above, distinguish between *personal ethics*, *business ethics* and *professional ethics*. **(4 marks)**

- c) PBL could be said to be operating in a hypercompetitive environment. The building industry business environment in Ghana has become uncertain and dynamic with aggressive competitors constantly challenging current assumptions and methods.

Required:

With reference to the case study, advise on **FOUR (4)** strategies PBL could pursue in a hypercompetitive market. **(6 marks)**

- d) Michael Porter used a diamond shape to present the factors that create comparative competitive advantage for a country over other countries. There are four interrelated elements: Favourable factor conditions, Related and supporting industries, Demand conditions in the home market, Firm strategy, structure and rivalry.

Required:

With reference to the above statement, analyse **TWO (2)** criticisms of the Porter's Diamond theory. **(4 marks)**

(Total: 20 marks)

QUESTIONS TWO

- a) The success of a company in international markets significantly hinges on its approach and orientation towards global business. Management orientation influences how organisations and managers view the world, and this informs the corporate strategies that are deployed.

Required:

Based on the Management orientation framework and in reference to the case study, identify and discuss **ONE (1)** advantage and **ONE (1)** disadvantage of the management orientation PBL has been using in Sierra Leone, Gabon, and Mali until it was changed in the last board meeting. **(4 marks)**

- b) Discuss **THREE (3)** alternative management orientations PBL could use in its foreign subsidiaries. **(6 marks)**

- c) Culture is a difficult concept to understand. One well-known model for understanding the culture within an organisation is the Cultural Web model, devised by Johnson and Scholes in 1992. Johnson and Scholes argued that the culture within an organisation, and the convictions and assumptions of the people within it, can be defined by six elements. These affect the way that people within the organisation interact with one another, the way they do things, and their attitudes to the 'outside world'.

Required:

Analyse the six elements of culture within PBL's cultural web emphasising on how management could mitigate the effects on operations of the business. **(10 marks)**

(Total: 20 marks)

QUESTION THREE

- a) There is no widely-accepted approach to the management of risk. Each business and non-business entity develops its own risk management structure according to its own needs and perceptions. There has been a suggestion for PBL to consider hiring a Risk Manager and put in place a Risk Committee.

Required:

As part of the extract of a business plan, detail the roles of the proposed Risk Manager and the Risk Committee. (comment on the Board chairman's report as part of your answer).

(10 marks)

- b) The concept of the balanced scorecard is that there are several key aspects of performance ('perspectives on performance'), and targets should be set for each of them. These different 'perspectives' may sometimes appear to be in conflict with each other, because achieving an objective for one aspect of performance could mean having to make a compromise with other aspects of performance.

Required:

Using the *Balanced Scorecard* (Appendix 1) propose an additional strategic objective under each of the four performance perspectives, identify its related key performance indicator and target, and initiative (s) needed to achieve the success factor. **(10 marks)**

(Total: 20 marks)

QUESTION FOUR

- a) The Board of Directors at PBL is evaluating the feasibility of expanding into Burkina Faso based on the consultant's report. The financials have been converted into Ghana cedis for ease of evaluation.

Required:

Ignoring any issues of double taxation arrangement and exchange rate conversion, evaluate the financial feasibility of this expansion considering the information provided. Include considerations for project costs, home sales, tax implications, and the cost of capital. Based on your analysis, provide recommendations to the Board regarding the viability of the expansion into Burkina Faso. **(8 marks)**

- b) With reference to the additional information,
- i) calculate the ROCE, EPS and Gearing for the equity issue and the debt issue. Comment on the impact on the forecast draft financial statements as at the end of the next accounting period. **(8 marks)**
- ii) Comment on an alternative financing option to acquire the assets and its accounting treatment. **(4 marks)**

(Total: 20 marks)

QUESTION FIVE

A well-governed company is one in which the board acts in the best interests of shareholders and other stakeholders (such as employees) and in accordance with the law. In doing so, a board should apply a number of broad concepts. Failure to apply these concepts in practice is likely to lead to bad governance, with the board or its leaders governing the company in their self-interest.

Required:

Within the context of PBL's board:

- a) Briefly explain how the role of management and those in charge with governance can be clearly defined to avoid confusion. **(5 marks)**
- b) Briefly explain the role of Non-Executive Directors. **(5 marks)**
- c) Briefly explain the role of the Head, Finance in the corporate governance of PBL. **(5 marks)**
- d) Briefly explain the limitations of international codes or statements of principles. **(5 marks)**

(Total: 20 marks)

SUGGESTED SOLUTIONS

QUESTION ONE

a)

| Reducing Environmental Footprints | Reducing Social Footprints |
|---|--|
| <ul style="list-style-type: none"> • Better resource management, and using different resources. Reducing emissions of carbon-based pollutants, such as the release of carbon dioxide into the atmosphere. This could be done by switching to the use of fuel and energy that does not involve carbon consumption. Trees cut for building purposes should be replaced by planting more trees. • ‘Green’ procurement policies. Making, using, handling and transporting materials safely and in an environmentally-friendly way and in compliance with local regulations. • Waste minimisation and waste management (for example, policies on reducing pollution and recycling waste). | <ul style="list-style-type: none"> • Health and safety at work (for example, numbers of employees injured each year per 100 of the work force). • Avoid the use of child labour and casual workers with not too good conditions of service in their operations. • Cutting down of trees to make way for real estate development could lead to increase in carbon dioxide in the atmosphere and its attendant global warming or extreme heat. This affects the lives of people in the community. |

(3 points each @ 1 mark = 6 marks)

b) **Personal ethics** are intrinsic moral principles and values that govern an individual’s interactions with others. It is neither enforced nor required by a prescriptive code and reflects one’s inner views on morality, that is, what is right and wrong. It is usually influenced by family, friends, experiences, culture and religion. This kind of ethical behaviour could help an individual not to be influenced to engage in green washing.

Business ethics are the moral principles and values that guide how people and institutions behave in the world of commerce. It considers how the pursuit of self-interest (e.g. profits) impacts others through the actions of individuals or firms within business. A business code of ethics will apply to all employees whether they are members of a professional body (and therefore subject to a code of professional ethics too) or not. Business ethics would prevent PBL not to make false environmental friendly claims for profit purposes

Professional ethics are normally specified in a professional code of conduct that all members (and students) professing to be part of that profession must abide by.

Adherence to an institute's professional code of conduct such as IFAC Code of Conduct is normally a requirement of membership and remains relevant throughout the professional's life, not just in the work environment. This can be linked to personal ethics. However, this is enforceable and a professional is compelled to abide by them.

(1.33 marks each = 4 marks)

c) Strategies PBL could pursue

- Shorter building period. Introduce new improved products building techniques that reduce the period used to complete a building to compete against established competitors.
- Introducing a better building type that increases their market share. This would work until another competitor introduces a new, improved product that is even better.
- Imitating competitors, entering into building venture that the market wants, might remove the competitive advantage that the competitors currently enjoy.
- Prevent a competitor gaining a strong initial position by responding quickly.
- Concentrating on small market segments that might be overlooked by competitors. Eventually, the market might be divided into many small market segments.
- In some situations, it might be possible to compete by building alliances with some smaller competitors to compete with larger companies that are financially stronger and currently are the market leaders.

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

d) Criticisms of Porter's Diamond

- It is more relevant to companies in advanced economies than to companies in countries with developing economies.
- The diamond model does not consider the role of the multinational company, which locates production operations in different countries across the world.

(2 marks for each point = 4 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

Candidates performance in the various sub-questions were very good. However, over 50% of candidates wasted time ignoring the marks allocations at the expense of other questions. A number of candidates also answered the questions without paying attention to the scenario hence only provided theoretical answers without relating their answers to the case study. Some candidates struggled due to lack of knowledge of the models hence poor performance and/or deviations which is very disappointing. Most of the candidates who answered this question could not identify the two criticism of Porter's Diamond theory relating it to the case study. The requirement is specific, hence general answers were not adequate to earn pass marks for this question. Candidates should adequately cover the syllabus prescribed by the Institute.

QUESTION TWO

a) **Ethnocentric Orientation:**

PBL uses an ethnocentric management orientation primarily due to its successful and centralized approach in driving significant profit growth in Sierra Leone, Gabon, and Mali branches over the last 3 years. The parent company in Ghana making major decisions, particularly for significant budget items, implies a preference for central control and decision-making from the company's home country. Deploying marketing and sales strategies from Ghana to these countries indicates a belief in the superiority of strategies developed in the parent country. The recommendation of special bonuses for country managers further emphasises a centralised rewards system, aligning with an ethnocentric approach. The motion to decentralise operations faces resistance, suggesting a firm belief in the effectiveness of the current centralized decision-making model and concern about potential loss of control and risks like management buy-outs.

Advantages

- **Efficiency:** Centralised decision-making allows for quicker and more efficient choices.
- **Standardisation:** Ensures consistent strategies and operations across branches.
- **Expertise Utilisation:** Enables leveraging specialised skills and knowledge from the parent country.
- **Cost Savings:** Centralised functions can lead to cost-efficiency and savings.

Disadvantages

- **Local Insensitivity:** Might overlook local market nuances and cultural differences.
- **Innovation Block:** Centralisation can stifle innovation and creativity at the local level.
- **Employee Morale:** May reduce motivation and engagement among local managers and employees.
- **Limited Responsiveness:** Slows down responses to local market changes and demands.

Identification of the orientation = 1 mark

1.5 marks each for the advantage and disadvantage = 3 marks

b) **Alternative management orientations PBL could use**

- **Polycentric Orientation:** A polycentric orientation involves a decentralised approach where subsidiaries or international branches operate with a high degree of autonomy. Decision-making and strategies are tailored to suit the local market conditions and cultural differences. This approach respects and adapts to local practices.

Analysing the degree of autonomy given to the operations in Burkina Faso and whether strategies are customised to suit the local market conditions will indicate if PBL follows a polycentric orientation.

- **Regiocentric Orientation:** A regiocentric orientation places emphasis on a specific region rather than a single home country. The organisation's strategies are developed and implemented based on regional needs and differences. This approach acknowledges the similarities within a region.

If PBL tailors its strategies and operations considering the unique characteristics and demands of West African countries, particularly those within the ECOWAS region, it may align with a regiocentric orientation.

- **Geocentric Orientation:** A geocentric orientation takes a global perspective. The company's strategies are developed considering both global integration and local responsiveness. The focus is on hiring the best talent globally and utilising resources efficiently across different markets.

If PBL displays a global mindset by recruiting international talent, adopting standardized practices across various countries, and being receptive to market-specific needs, it aligns with a geocentric orientation.

(2 marks for each = 6 marks)

c) Elements of culture

- **Routines and rituals.** Routines and rituals are 'the ways things are done around here'. Individuals get used to established ways of doing things. An example in PBL is too many monthly meetings and this increases the company's spending on board members. The suggestion to reduce board meetings to 6 times a year should cut down meeting allowances and other incidental benefits to the board.
- **Stories and myths.** Stories and myths are used to describe the history of an organisation, and to suggest the importance of certain individuals or events. They are passed by word of mouth. They help to create an impression of how the organisation got to where it is, and it can be difficult to challenge established myths and consider a need for a change of direction in the future. Osman Boakye and Bortey Boakye founded the company, PBL. However, they have accepted a culture of consultation and approval by the board as opposed to running a one man show where decisions are made and handed on to the board members.
- **Symbols.** Symbols can become a representation of the nature of the organisation. PBL is known for creating and delivering state-of-the-art, economically priced housing units in attractive places with contemporary facilities and well-developed infrastructure on schedule. This represents what the company is known for.
- **Power structure.** Organisations are influenced by the individuals who are in position of power. In many business organisations, power is obtained from management position. However, power can also come from personal influence, or experience and expertise. At PBL, Osman Boakye and Bortey Boakye started the company and they are part of all the board committees (including Board Development Committee but not the Finance Committee which the attendance

sheet did not capture). They however, believe in consultation and the fact that majority decision should decide.

- **Organisation structure.** The culture of an organisation is affected by its organisation and management structure. Hierarchical and bureaucratic organisations might find it particularly difficult to adapt to change and are often conservative in their outlook. Currently, PBL makes major decisions, especially for budget items above GH¢500 million. Marketing and sales strategies are deployed from Ghana to these countries. This could prove to be bureaucratic. Decentralising decision making could be a very productive way of improving efficiency.
- **Control systems.** Performance measurement and reward systems within an organisation establish the views about what is important and what is not so important. Individuals will focus on performance that earns rewards. The balanced scorecard provided establishes the view that PBL is focused on customer satisfaction and value creation for stakeholders. However, the Finance Committee's proposal for a new remuneration scheme was deferred due to sustainability concerns.

(For any 6 points made 1.67 marks each = 10 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

It was a straightforward question but over 15% of candidates deviated the (c) part of the question due to their inability to identify the six elements of culture within PBL'S cultural web. Candidates who were able to identify the culture elements failed to relate it to the scenario using the case study. Most of the candidates did very well especially in the first part of the question.

QUESTION THREE

a) Role of Risk Managers

- Helping with the identification of risks
- Establishing 'tools' to help with the identification of risks
- Establishing modelling methods for the assessment and measurement of risks
- Collecting risk incident reports (for example, health and safety incident reports)
- Assisting heads of departments and other line managers in the review of reports by the internal auditors.
- Preparing regular risk management reports for senior managers or risk committees
- Monitoring 'best practice' in risk management and encouraging the adoption of best practice within the entity.

(Any 3 points of 2marks each= 6marks)

Role of Risk Committees

- Their function is to identify risks, monitor risks and report on the effectiveness of risk management to the board or senior management.
- They are responsible for fulfilling the corporate governance obligations of the board to review the effectiveness of the system of risk management.
- They have oversight of Internal Audit and External Audit

(Any 2 points of 2marks each = 4 marks)

Total 10 marks

b) Additional strategic objectives

| Performance Objectives | Strategic Objectives | Key Performance Objectives | Targets | Initiatives |
|------------------------|--|--|--|--|
| Financial | Increase in Profit Generated from Assets | Return on Assets | From 5% to 10% | negotiate better deals with suppliers, or explore new markets to drive sales |
| Financial | How efficiently the company is being run | Return on Equity | From 15% to 20% | Increase in net profit margin through cost cutting measures |
| Customer | Be a market leader | Increase in market share | From 15% to 20% | Embark on sales promotion and market penetration strategies |
| Customer | Penetration into foreign markets | Increase in enquiries from other countries | 50% of foreign calls converted to sales | Digital marketing through website and social media channels should be enhanced |
| Internal Processes | Improve quality of houses built | Reduce or eliminate number of defects identified upon inspection | From 10 defects to 5 defects or zero defects | Implement TQM and ISO Certification |

| | | | | |
|-------------------------|---------------------------------------|---|------------------------------------|--|
| Internal Processes | Efficiency in building processes | Reduction in time used to complete each category of building type | From 6 months per unit to 5 months | Make use of research findings from Building and Road Research Institute (BRRI) |
| Learning and Innovation | Establish its own research initiative | Percentage spending on research | % research spending from 5% to 8% | Engage building research team |

(2.5 marks for each point = 10 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

For sub-question (a), some candidates could not identify the role of Risk Manager and Risk Committee. Some candidates rather explained the role of Audit Committee. The other surprise challenge was that over 20% of candidates prepared "Business Plan", wasting time with no marks earned i.e. deviated. Few candidates were able to explain by relating it to the case study.

Part (b) of the question which was supposed to be the easiest turned out to be the most challenging resulting in poor presentation with a number of deviations. Exhibit 1 from the pre-seen material provided PBL Balanced Scorecard. The question was simply asking candidates for additional strategies under each of the perspectives i.e. Financial, Customer, Internal Processes and Learning and Innovation. Most candidates were challenged with presentation format and providing additional perspectives under each heading that can be related to the case study. Evidence that most candidates did not internalise the case study.

Most of the candidates did very well, especially in the second part of the question.

QUESTION FOUR

a) Computation of NPV

| Alternative 1-NPV | | | | | | | |
|--------------------------|-------------|-----------------|-------------|-------------|-------------|-----------|--------|
| | Year 0 | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | |
| | GHS000 | GHS000 | GHS000 | GHS000 | GHS000 | GHS000 | GHS000 |
| Sales | | 6,527,000 | 8,758,485 | 9,800,344 | 7,471,537 | | |
| Variable Cost | | (3,696,000) | (5,009,400) | (5,590,200) | (4,743,684) | | |
| Fixed Cost | | (1,260,000) | (1,323,000) | (1,389,150) | (1,458,608) | | |
| Depreciation | | (1,250,000) | (937,500) | (703,125) | (609,375) | | |
| Taxable Cash flows | | 321,000 | 1,488,585 | 2,117,869 | 659,870 | | |
| Tax @ 25% | | | (80,250) | (372,146) | (529,467) | (164,968) | |
| Add back: Depreciation. | | 1,250,000 | 937,500 | 703,125 | 609,375 | | |
| Investment: | | | | | | | |
| Cost | (5,000,000) | | | | | | |
| Scap Value | | | | | 1,500,000 | | |
| | (5,000,000) | 1,571,000 | 2,345,835 | 2,448,848 | 2,239,778 | (164,968) | |
| Discount Factor @24% | 1 | 0.806 | 0.650 | 0.524 | 0.423 | 0.341 | |
| | (5,000,000) | 1,266,226 | 1,524,793 | 1,283,196 | 947,426 | (56,254) | |
| NPV | | (34,613) | | | | | |

| Alternative 2-NPV | | | | | | | |
|--------------------------|-------------|-----------------|-------------|-------------|-------------|-----------|--------|
| | Year 0 | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | |
| | GHS000 | GHS000 | GHS000 | GHS000 | GHS000 | GHS000 | GHS000 |
| Sales | | 6,527,000 | 8,758,485 | 9,800,344 | 7,471,537 | | |
| Variable Cost | | (3,696,000) | (5,009,400) | (5,590,200) | (4,743,684) | | |
| Fixed Cost | | (1,260,000) | (1,323,000) | (1,389,150) | (1,458,608) | | |
| Taxable Cash flows | | 1,571,000 | 2,426,085 | 2,820,994 | 1,269,245 | | |
| Tax @ 25% | | | (392,750) | (606,521) | (705,249) | (317,311) | |
| Add Tax Savings: | | | 312,500 | 234,375 | 175,781 | 152,344 | |
| Investment: | | | | | | | |
| Cost | (5,000,000) | | | | | | |
| Scap Value | | | | | 1,500,000 | | |
| | (5,000,000) | 1,571,000 | 2,345,835 | 2,448,848 | 2,239,778 | (164,967) | |
| Discount Factor @24% | 1 | 0.806 | 0.650 | 0.524 | 0.423 | 0.341 | |
| | (5,000,000) | 1,266,226 | 1,524,793 | 1,283,196 | 947,426 | (56,254) | |
| NPV | | (34,613) | | | | | |

Either method gives the same Net Present Value (NPV) of negative 34,613.

Workings

1. Sales

| | Year 1 | Year 2 | Year 3 | Year 4 |
|------------------------------|------------------|------------------|------------------|------------------|
| Semi-Detached Homes | | | | |
| Selling price | 250,000 | 250,000 | 250,000 | 250,000 |
| Inflation @ 7% | 1.070 | 1.145 | 1.225 | 1.311 |
| | 267,500 | 286,225 | 306,261 | 327,699 |
| X Quantity of Homes sold | 10 | 15 | 20 | 6 |
| Sales (GHS) A | 2,675,000 | 4,293,375 | 6,125,215 | 1,966,194 |
| Detached Homes | | | | |
| Selling price | 300,000 | 300,000 | 300,000 | 300,000 |
| Inflation @ 7% | 1.070 | 1.145 | 1.225 | 1.311 |
| | 321,000 | 343,470 | 367,513 | 393,239 |
| X Quantity of Homes sold | 12 | 13 | 10 | 14 |
| Sales (GHS) B | 3,852,000 | 4,465,110 | 3,675,129 | 5,505,343 |
| Total Sales (GHS) A+B | 6,527,000 | 8,758,485 | 9,800,344 | 7,471,537 |

2. Fixed Infrastructure cost

| | Year 1 | Year 2 | Year 3 | Year 4 |
|----------------|-----------|-----------|-----------|-----------|
| Fixed cost | 1,200,000 | 1,200,000 | 1,200,000 | 1,200,000 |
| Inflation @ 5% | 1.050 | 1.103 | 1.158 | 1.216 |
| | 1,260,000 | 1,323,000 | 1,389,150 | 1,458,608 |

3. Variable Cost

| | Year 1 | Year 2 | Year 3 | Year 4 |
|------------------------------|------------------|------------------|------------------|------------------|
| Semi-Detached Homes | | | | |
| Variable Cost per home | 120,000 | 120,000 | 120,000 | 120,000 |
| Inflation @ 10% | 1.100 | 1.210 | 1.331 | 1.464 |
| | 132,000 | 145,200 | 159,720 | 175,692 |
| X Quantity of Homes sold | 10 | 15 | 20 | 6 |
| Sales (GHS) A | 1,320,000 | 2,178,000 | 3,194,400 | 1,054,152 |
| Detached Homes | | | | |
| Variable Cost per home | 180,000 | 180,000 | 180,000 | 180,000 |
| Inflation @ 10% | 1.100 | 1.210 | 1.331 | 1.464 |
| | 198,000 | 217,800 | 239,580 | 263,538 |
| X Quantity of Homes sold | 12 | 13 | 10 | 14 |
| Sales (GHS) B | 2,376,000 | 2,831,400 | 2,395,800 | 3,689,532 |
| Total Sales (GHS) A+B | 3,696,000 | 5,009,400 | 5,590,200 | 4,743,684 |

4. Depreciation

| | GHS | Tax savings |
|---------------------------|-------------|-------------|
| Cost | 5,000,000 | |
| Year 1 Depreciation @ 25% | (1,250,000) | 312,500 |
| | 3,750,000 | |
| Year 2 Depreciation @ 25% | (937,500) | 234,375 |
| | 2,812,500 | |
| Year 3 Depreciation @ 25% | (703,125) | 175,781 |
| | 2,109,375 | |
| Scrap Value | (1,500,000) | |
| | 609,375 | |
| Year 4 Depreciation | (609,375) | 152,344 |
| | --- | |

Conclusion:

The Burkina Faso expansion is not financially viable, unless PBL embark on the following:

- increase the selling price of homes
- increase the number of homes sold
- reduce the construction cost of homes, both variable and fixed cost
- reduce the initial investment cost

(Marks are evenly spread using 50 ticks at .12 each = 6 marks)

(Conclusion: 2 points @ 1 mark each = 2 marks)

b)

i) Computation of ratios

| Ratio | Before | After (Equity issue) | After (Debt issue) |
|---------|----------|----------------------|--------------------|
| ROCE | 20% | 16.67% | 16.9% |
| EPS | GH¢ 1.60 | GH¢ 0.53 | GH¢ 1.40 |
| Gearing | 18.0% | 15.0% | 32.2% |

Commentary

ROCE (calculated as profit before interest and tax divided by long-term capital employed) is lower in each case. This is simply due to the cash raised leading to an increase in capital employed. The forecast capital employed at the year-end if debt were to be issued is GH¢ 10,000 lower than that for equity. This is due to the interest that would have to be paid on the debt. Remember that the example has ignored the impact of investing the GH¢ 100,000 raised. Companies do not raise cash without a reason. The GH¢ 100,000 would earn a return which would push ROCE upward, but this is ignored.

EPS is lower in each case but much more so for the equity issue. For the equity issue this is because the same amount of profit is shared between a greater number of shares. For the debt issue, there is slight fall due to the interest payment reducing the profit. Again, remember that the numbers ignore the positive impact of the investment.

Gearing would fall due to the equity issue because there would more equity but the same amount of debt. Gearing increases due to the debt issue for the opposite reason.

(Computation of ratios 9 ticks at .67 per tick=6.03 marks)
(Commentary on ratios calculated 3 ticks at 0.66 each = 1.98 with margin of error of 0.01)

ii) Leasing: A company that needs a new asset could borrow cash to buy the asset. Alternatively, it could lease the asset. A lease, in effect, provides finance for the purchase of an asset. When a company acquires an asset under a lease, in substance it has borrowed money to buy the asset. Leases are capitalised. In other words, the asset and a liability are both recognised on the statement of financial position. In addition, depreciation and finance charge (interest expense) is recognised in the income statement.

(Comments on 4 financing alternatives at 1 mark each = 4 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Over 35% of candidates ignored the 8 marks question in part (a) or did not attempt the question at all. Most candidates' challenges were calculation of sales, variable cost, depreciation, taxable cash flow, tax savings, DCF % rate calculation and scrap value of the assets in addition to structure of presenting etc. Performance was well below average with most scripts scoring less than 25% of the total marks allocated. Two alternative suggested solutions are provided in the calculation of the NPV, but the answers are the same.

Sub-question (b) was in two parts. (i) required candidates to compute and explain three ratios: ROCE, EPS and Gearing before and after issues of Equity and Debt. All necessary information was provided as part of the unseen additional materials. Most candidates ignored the (b) (i) part of the question because they could not attempt the (a) part. Although candidates could have earned some marks, they did not attempt the question or could not explain and comment on how the three ratios could impact on the forecast draft financial statement. The question was not appreciated by candidates which is the standard practice and core role of Chartered Accountants.

Most of the candidates who attempted it performed poorly.

QUESTION FIVE

a) Role of management and those charged with governance

- The role of the board of directors is to monitor the decisions and performance of executive management, and to satisfy themselves that the decisions taken by management are in the best interests of the company and its shareholders.
- The board of directors are responsible for setting strategic objectives for their company and approving major capital investments.
- After the Board has set out the strategic objectives for the company, they should monitor the decisions and performance of executive management to ensure that they are acting in the best interest of shareholders. PBL's Head of Finance is a member of the Board's Committee on remuneration and appointments. If this role is not clearly defined, the Head of Finance could be in a conflict of interest situation when it comes to determining executive management compensation. As a member of the appointment committee, the Head of Finance is also the Vice Chairman of the Finance Committee (the meeting attendance was not in the report). This could also lead to a conflict of interest situation.

(Any 2 points of 2.5 marks each=5 marks)

b) Role of Non-Executive Directors

- The individuals appointed as NEDs should possess skills, knowledge or experience that executive directors do not have, so that they can bring additional valuable insights to board deliberations.
- NEDs provide independent viewpoints and assistance to executive directors.
- NEDs constructively challenge and help to develop proposals on strategy.
- NEDs monitor the performance of executive management in meeting their agreed targets and goals.
- NEDs are to satisfy themselves about the integrity of the financial information produced by the company, and the company's systems of risk management and internal control are robust.
- NEDs are responsible for deciding the remuneration of executive directors and other senior managers, and should have a major role in the appointment of new directors.

(Any 2 points of 2.5 marks each = 5 marks)

c) Role of Head, Finance in the corporate governance of PBL

- Prepare the company's accounting records and the financial statements. In this role, they are expected to comply with the company's financial controls and accounting standards.
- Advise the board on the costs of senior executive remuneration.
- Engage with external monitoring and audit agencies like tax authorities and external auditors
- Cooperate with the Internal Auditor to ensure a good internal control system.

(Any 2 points of 2.5 marks each = 5 marks)

d) Limitations of international codes or statements of principles

- Because they apply to all countries, they can only state general principles. They cannot give detailed guidelines, and so are not specific. Since they are not specific, they are possibly of limited practical value.
- Their main objective is to raise standards of corporate governance in the countries which have not so far made much progress with establishing a Corporate governance and the board of directors' good system of corporate governance. They have less relevance for countries where corporate governance standards are above the minimum standard.
- Unlike national laws and codes of corporate governance, there is no regulatory authority for international statements of principle. The principles therefore lack any 'force'. In specific countries, by contrast, there may be a supervisory body or regulatory body with specific responsibility for encouraging or enforcing corporate governance practices.

(Any 2 points of 2.5 marks each = 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

This question was in four parts with marks allocated equally to each part with preamble provided before the question to assist candidates.

Part (a) of the question asked candidates to briefly explain how the role of management and those in charge with governance can be clearly defined to avoid confusion within the context of PBL.

Part (b) asked candidates to briefly explain the role of Non-Executive Directors in relation to a scenario and within the context of PBL.

Part (c) asked candidates to explain briefly the role of the Head of Finance in the corporate governance of PBL. Popular with candidates.

Part (d) asked candidates to briefly explain the limitations of international codes of statement of principles.

Most candidates attempted this question and performed well. Few candidates ignored the marks allocations and spent too much time at the expense of other questions hence could not finish answering all the question.

FUTURE EXAMINATIONS-LOOKING AHEAD

Candidates should read the pre-seen material carefully and come into the examination understanding and mind map of the industry and the company which will be the focus of the exam and practice question in the student manual. 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 questions they know well at the expense of others. Candidates must answer what is being examined, read the questions very carefully, plan and answer what has been asked. Answers not applied to the case does not score high marks.

CONCLUSION

Overall, the candidates performed well in this paper compared to the previous examinations diet.