NOVEMBER 2024 PROFESSIONAL EXAMINATIONS
FINANCIAL MANAGEMENT (PAPER 2.4)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

EXAMINER'S GENERAL COMMENTS

- The paper for this sitting was considered to be of high standard and quality in line with the requirements
- The spread of the questions and allocation of marks was also considered good and consistent with the expectation and requirements. It also captured the additions to the new syllabus which were tested for the first time after the launch. This afforded the candidates the opportunity to answers varied question across all the sections in the syllabus ensuring a broad base learning and comprehensive preparations towards the exams
- Also, the questions were well spread between theory or essay and calculations with 45% allocated to the essay or theory questions and the remaining 55% to the calculations compared to the 36% and 64% in the previous sitting.
- The questions were also structured in a manner that ensured that each question had a number of sub questions to ensure a good spread across the syllabus and also afforded candidates flexibility to be able to attempt all or part of each question. This contributed to improving the pass rate compared to the previous sitting.
- The marks were allotted based the level of details expected from the candidates and the level of difficulty

PERFORMANCE OF CANDIDATES

- The performance of the candidates showed a remarkable improvement over the previous examination. The overall pass rate was 43% compared to the 29% over the previous sitting demonstrating a good performance even though this was the first exams under the new syllabus.
- The improvement in performance was generally across all questions. Except question one and two, all other questions had improvement in performance and pass rates. The overall best answered question was Question Four with a pass rate of 64% and the worst was Question One with a pass rate of just 8.5%

- Drivers of the good performance:
  - Good theory base questions which carried 45% of the marks with a good number of candidates doing well in answering the questions
  - Better preparations by some candidates
  - Reading and appreciating the issues highlighted in the examiners reports also serves as a useful tool to guide candidates as to the dos and dons in the paper and serves to improve performance.

NOTABLE STRENTHGS AND PERFORMANCE OF STUDENTS

The following strengths were observed:

- Improvement in the approach to answering the theory base questions
- Candidates generally exhibited strengths in showing their workings to each question clearly labelling them as workings
- General improvement in the approach to answering and attempting all questions
- Candidates clearly demonstrated clear understanding of the requirements of the question.
- Candidates showed good performance in the new areas added to the syllabus demonstrating comprehensive preparation for the exams using the new syllabus which included some aspects of public sector accounting and information technology aspects

Observed reasons of the strengths:

- Improvement in the quality of tuition, and use of quality and approved study materials
- Paying attention to the issues that were highlighted in the previous examiners reports that guided candidates who use them as their reference guide
- Comprehensive preparation and revision by candidates which manifested in the quality and detailed nature of answers provided in the exams

The strengths can be enhanced by:

- Improving more and allocation more time for preparations before writing the paper instead of rushing to write the paper ill prepared.
- Spending more time on examiners reports with special attention to areas of weakness of candidates identified and work assiduously to avoid or improve on that
- Use quality and accredited study materials and tuition providers that have the requisite knowledge, experience and time to properly guide especially average and weak candidates to improve their performance
- Proper and comprehensive planning on when to be ready to sit for the exams without rushing to sit for the exams ill prepared.

Observed weaknesses demonstrated by students

- Weak appreciation of the quantitative aspects of the exams by some candidates which impacted negatively on their pass rates
- Poor knowledge still exhibited in the share pricing and valuation issues and working capital management decision making analysis
- Mis-numbering of questions and arrangement of answers in the booklet making marking difficult and time consuming for examiners
- Over elaborative answers that wasted candidates' precious time with sub questions that carry low marks and required straight forward answers

Remedies for observed weaknesses

- Candidates should ensure correct numbering of the questions on top of the space provided on the answer booklet and where there is an error, neatly cancel and write the new question answered on that page
- Candidates should spend more time in studying and practising the quantitative aspect of the paper as well to improve their chance of passing the paper
- Continuously read and take action on the emerging issues and weaknesses highlighted in the examiners reports to avoid committing those errors to ensure their good performance in the exams

QUESTION ONE

a) GoodLife Innovations is planning to expand its operations, which will boost its profit before interest and tax by 20%. The company is evaluating whether to fund the GH¢4,000,000 needed for this expansion through equity or debt financing.

If equity financing is chosen, the company will offer a 1-for-5 rights issue to existing shareholders at a 20% discount to the current ex-dividend share price of GH¢5 per share. The par value of the ordinary shares is GH¢1 per share. Alternatively, if debt financing is selected, GoodLife Innovations will issue 20,000 8% loan notes, each with a par value of GH¢200.

The following information was extracted from the financial statement prior to raising new finance:

	GH¢000
Profit before interest and tax	3,194
Finance costs (interest)	(630)
Taxation	(564)
Profit after tax	**2,000**
Equity & liability:	
Ordinary shares	5,000
Retained earnings	10,976
Long-term liabilities: 7% loan notes	9,000
Total equity and long-term liabilities	**24,976**

GoodLife Innovations currently has a price/earnings ratio of 12.5 times. Corporate tax is payable at a rate of 22%.

Required:

i) Calculate the theoretical ex-rights price per share. **(2 marks)**

ii) Calculate the revised earnings per share after the business expansion

- assuming equity finance is adopted/used. **(4 marks)**
- assuming debt finance is adopted/used. **(4 marks)**

iii) Determine the revised share prices under both financing methods after the business expansion. **(1 mark)**

iv) Determine which financing method should be used for the planned business expansion using computations for interest cover and share price changes. **(3 marks)**

b) Finance Managers often encounter decisions that affect the organisation's financial health and reflect its commitment to ethical standards. Balancing profitability with ethical considerations can be challenging, yet it is essential for sustaining long-term success and protecting an organisation's reputation.

Required:

Discuss **FOUR** ethical issues in financial management. **(6 marks)**

(Total: 20 marks)

QUESTION TWO

Santrofi PLC is a publisher that wants to expand its market share in magazine publications. The company plans to launch two new products, Agbui and Loloi, at the start of January 2025, which it believes will each have a 4-year life span. The sales mix is assumed to be fixed. The information below is relevant:

i) Expected sales volumes (units) for Agbui are as follows:

Year	**1**	**2**	**3**	**4**
Volume	30,000	55,000	50,000	15,000

ii) The first year's selling price and direct material costs for each Agbui unit will be GH¢31 and GH¢12, respectively. On the other hand, the company expects to sell 25% more of Loloi units than Agbui. Both selling price and direct material cost of Loloi are expected to be 25% less than Agbui's.

iii) Incremental fixed production costs are expected to be GH¢500,000 in the first year of operation, apportioned based on revenue. Advertising costs will be GH¢250,000 in the first year of operation and then GH¢125,000 per year for the following two years.

iv) To produce the two products, an investment of GH¢1 million in machinery and GH¢500,000 in working capital will be needed, payable at the start of the period. Santrofi PLC expects to recover GH¢600,000 from the sale of machinery at the end of the project life. Investment in machinery attracts a 100% first-year tax-allowable depreciation. The company has sufficient profit to take full advantage of the allowance in Year 1. For the purpose of reporting accounting profit, the company depreciates machinery on a four-year straight-line basis.

v) Revenue and costs are expected to be affected by inflation after the first year as follows:

Selling price	3% a year
Direct material cost	3% a year
Fixed production cost	5% a year

vi) The company's real discount rate is 10% for investment appraisal. Average inflation is deemed to be 3%. The applicable corporate tax rate is 25%.

Required:
Calculate the net present value of the proposed investment in the two products and advise the company on its investment appraisal. **(Total: 20 marks)**

QUESTION THREE

a) Dadisen PLC manufactures and sells pharmaceutical products in Ghana. It imports a significant portion of its pharmaceutical inputs from the USA. However, it only sells its products in Ghana. The company is considering establishing its foothold in The Gambia, Liberia, and Sierra Leone markets.

i) Dadisen PLC reports its results in its home currency. It pays for its purchases from the USA in US dollars but receives payments for its sales in Ghana cedis. All sales from Gambia, Liberia, and Sierra Leone are expected to be transferred into US dollar accounts each week. On average, the company generally takes 90 days to pay its suppliers and receives payment from its debtors within 60 days. In paying its suppliers, the company relies on bank overdrafts at an annual rate of 10%.

Over the last few years, the company has found that sales have been quite predictable, and it has been possible to plan sales levels and purchases of goods in advance. However, the company does not have adequate management skills for its foreign currency exposure. As a result, the company has reported exchange rate losses since 2020. The company is currently considering whether the forex exposure could be better managed

Required:
Describe the following types of foreign currency exposure, giving examples of how they could impact the financial statements of Dadisen PLC.

- Transaction risk **(3 marks)**
- Translation risk **(3 marks)**
- Economic risk **(3 marks)**

ii) The company estimates that it will need to borrow $1 million in three months' time for a period of six months but is concerned about expected fluctuations in the exchange rate. The company is considering hedging this exposure using currency forward. The company's banker, GCB, has agreed to sell the US dollar forward for 9 months at GH¢17 to the dollar.

Required:
Compute the effect of the currency forward transaction on profitability if the spot exchange rate in 9 months is:

- GH¢22 **(3 marks)**
- GH¢15 **(3 marks)**

b) The development of mobile money in Ghana has provided a section of the population with banking services that were previously not accessed. This expansion in financial inclusion is seen as a positive step towards boosting economic activity and alleviating poverty. However, there are some disadvantages to mobile money compared to a traditional bank account.

Required:
Explain **FOUR** disadvantages of mobile money compared to a traditional bank account. **(5 marks)**

(Total: 20 marks)

QUESTION FOUR

a) Djokoto PLC (Djokoto) has 12 million ordinary shares outstanding and no other long-term debt. The Finance Director of Djokoto, Adepa estimates that Djokoto's free cash flows at the end of the next three years will be GH¢0.5 million, GH¢0.6 million, and GH¢0.7 million, respectively. After Year 3, the free cash flow will grow at 5% yearly forever. The appropriate discount rate for this free cash flow stream is determined to be 15% annually.

In a separate analysis based on ratios, Adepa estimates that Djokoto will be worth 10 times its Year 3 free cash flow at the end of the third year. Adepa gathered data on two companies comparable to Djokoto: Mesewa and Dunsin. It is believed that these companies' ***price-to-earnings, price-to-sales,*** and ***price-to-book-value per share*** should be used to value Djokoto.
The relevant data for the three companies are given in the table below:

Valuation Variables for Djokoto and Comparable Companies			
Variables	**Mesewa**	**Dunsin**	**Djokoto**
Current price per share	7.20	4.50	2.40
Earnings per share	0.20	0.15	0.10
Revenue per share	3.20	2.25	1.60
Book value per share	1.80	1.00	0.80

Required:

i) Estimate Djokoto's fair value based on the discounted cash flows model. **(5 marks)**

ii) Compute the following ratios for the comparable companies

- P/E ratio **(2 marks)**
- Price to Sales ratio **(2 marks)**
- Price to book value of shares ratio **(2 marks)**

iii) Identify **TWO** advantages and **TWO** disadvantages of business combination. **(4 marks)**

b) The Farms and Gardens Authority (FGA), a public entity wants to buy 100 computers and 20 printers for its administrative offices. The Chief Executive Officer (CEO) is considering using the single-source procurement method to procure the computers and printers while pushing back on the recommendations of the Entity Tender Committee.

Required:

i) State **TWO** circumstances under which single-source procurement would be appropriate for the goods the FGA wants to procure. **(2 marks)**

ii) Advise the CEO on **TWO** functions the Entity Tender Committee is expected to perform in the FGA's procurements. **(3 marks)**

(Total: 20 marks)

QUESTION FIVE

a) Abaa LTD, a company that manufactures and sells electronic appliances, has been facing challenges with its accounts receivable management. Currently, the company allows its customers 60 days of credit. Due to the highly competitive market, Abaa LTD has been experiencing an increasing amount of bad debts and delayed payments, which has adversely affected its cash flow and profitability. To address these issues, the company's Finance Manager is considering several strategic changes:

Reduction in Credit Period: Reducing the credit period from 60 days to 45 days. It is estimated that this change could reduce sales by 5% due to the stricter credit terms, but it would also decrease the bad debt ratio from 4% to 2% of sales.

Offering Early Payment Discounts: Introducing a 2% discount for customers who pay within 30 days. The company anticipates that 30% of its customers will take advantage of this discount, which would improve cash flow and reduce the average collection period by 15 days.

Engagement of a Factor: The company is also considering engaging a factoring company to manage its receivables. The factor would advance 80% of the invoice value upon the sale of goods at 200 basis points below the company's cost of capital and charge a 3% fee on all sales. The factor is expected to reduce the bad debt ratio to 1% of sales and further reduce the average collection period by 20 days. Engaging the factor will lead to annual administrative savings of GH¢90,000.

Abaa LTD's current annual sales are GH¢20 million, and the variable cost of sales is 60% of sales. The company's cost of capital is 12% per annum.

Required:
Evaluate the financial implications of the following:

i) Reduction in Credit Period
ii) Offering Early Payment Discounts
iii) Engagement of a Factor
iv) Recommend the appropriate method to manage the credit sales **(10 marks)**

b) Outline the steps to be followed to collect overdue debts **(5 marks)**

c) Public-Private Partnerships (PPP) involve collaboration between government and a private sector company that can be used to finance, build and operate projects. Financing a project (for example, a highway) through PPP can allow a project to be completed sooner or make it a possibility in the first place.

Required:
Given the following types of PPP arrangements, discuss each of them and how they can be suitable for a highway project:

i) Build-Operate-Transfer (BOT) **(2 marks)**
ii) Design-Build-Finance-Operate (DBFO) **(2 marks)**
iii) Service Concession **(1 mark)**

(Total: 20 marks)

SOLUTION

QUESTION ONE

i) Current share price GH¢5.00
Right issue discount 20%
Current EPS GH¢0.40
Current PER 12.5 times

Right issue price per share (GH¢5 – GH¢1) GH¢4.00
TERP [(5 x GH¢5) + (1 x GH¢4)] / 6 **GH¢4.83**

(2 marks)

ii) Assuming equity finance

	GH¢'000
Increased PBIT (20%)	3,832
Finance costs	(630)
Revised profit before tax	**3,202**
Taxation @ 22%	(704)
Revised profit after tax	**2,498**

Increased number of shares 6,000,000
Revised EPS using equity (2,498 / 6,000) **GH¢0.42**

(3 marks for the workings, 1 mark for the final answer = 4 marks)

ii) Assuming debt finance

	GH¢'000
Increased PBIT (20%)	3,832
Finance costs (630+320)	(950)
Revised profit before tax	**2,882**
Taxation @ 22%	(634)
Revised profit after tax	**2,248**

Number of shares 5,000,000
Revised EPS using equity (2,248/5,000) **GH¢0.45**

(3 marks for the workings, 1 mark for the final answer = 4 marks)

iii) Revised share prices
Price = P/E ratio x EPS

Equity … 12.5 x 0.42 = 5.25
Debt … 12.5 x 0.45 = 5.63

(1/2 mark each = 1 mark)

iv) Financing method to be used
Interest cover (profit before interest and tax / interest)

Current interest cover	(3,194/630)	= 5.1 times
Equity finance	(3,83 /630)	= 6.1 times
Debt finance	(3,832/950)	= 4.0 times

Interest cover calculations show that raising equity finance would make the interest cover of GoodLife Innovation look much safer. Interest cover of 4 times under debt finance looks quite risky.

Share price changes
Debt Finance: Capital gain of GH¢0.63 per share (GH¢5.63 – GH¢5.00)
Equity Finance: Capital gain GH¢0.42 (GH¢5.25 – GH¢4.83).

Although using debt finance looks more attractive, it comes at a price in terms of increased financial risk. It might be decided, on balance, that using equity finance looks to be the better choice

(3 marks for computation, 1 mark for decision = 4 marks)

b) Ethical issues that may arise in financial management include:
1) Lack of objectivity and bias: Financial analysis must be conducted in an unbiased and objective manner.
2) Conflicts of interest: financial analysis and decision-making by Financial Managers should not be affected by competing personal interests. Acting ethically in this context encompasses both avoiding such conflicts where possible and disclosing them where they are unavoidable.
3) Bribery and corruption: financial managers should not be involved in illegal activities such as bribery and other forms of corruption
4) Competence and diligence: The financial manager should conduct financial management diligently and competently. Some techniques of financial management can be complex, and the financial manager should take steps to ensure that they do not accept or undertake tasks outside their competence

(Any four relevant points @ 1.5 each = 6 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS
This question examined the candidates' ability to determine the appropriate source of funding for business expansion by GoodLife Innovations.
The (a) (i) centred on the calculation of ex-rights price on the rights issue and (ii) part to determine the revised earnings per share based on the rights issue and the debt finance. The (a) (iii) expected the candidates to determine the revised share price based on each financing option and provide an advice as to which option should be used for the expansion. This part was poorly answered as candidates struggled to determine the number of shares under the rights issue, the price per share under each option and could not provide any advice on the matter. Few candidates however performed well and provided the needed advice backed by their computations.
The (b) part which was theory based required candidates to discuss four ethical issues in Financial management and generally received average to good responses and contributed to marginal pass rate in this question.

QUESTION TWO

Year	0	1	2	3	4
	GH¢	**GH¢**	**GH¢**	**GH¢**	**GH¢**
Outlay:					
Purchase of Machinery	(1,000,000)				
Working capital	(500,000)				
Supplemental Cash flows					
Sales		1,801,875	3,402,541	3,186,219	984,347
Cost		(1,447,500)	(1,967,113)	(1,907,424)	(959,822)
Taxable profit		354,375	1,435,428	1,278,795	24,525
Tax		88,594	358,857	319,699	6,131
Net profit		265,781	1,076,571	959,096	18,394
Depreciation allowance		1,000,000	-	-	-
Terminal value					
Recovery of working capital					500,000
Disposal effect					450,000
Net cash flow	(1,500,000)	1,265,781	1,076,571	959,096	968,394
Discount factor (13.3%)	1.000	0.883	0.779	0.688	0.607
Present value	(1,500,000)	1,117,685	838,649	659,858	587,815
Net present value	1,704,007				

Given a positive NPV, the company should accept and launch the two products based on financial considerations.

Workings:

1. The relative percentages are Agbui = 100% and Loloi = 1.25*0.75 = 93.75% of Agbui for sales and direct material costs.

2.

	1	2	3	4
Units	30,000	55,000	50,000	15,000
Selling price(GH¢)	31	31.93	32.89	33.87
Sales	= 1.9375*units*selling price			
	1,801,875	3,402,540.5	3,186,219	984,347

3. Costs

Direct material (GH¢)	12	12.36	12.73	13.11
Direct material	= 1.9375*units*unit cost			
	697,500	1,317,112.5	1,233,174	381,009.5
Fixed production(GH¢)	500,000	525,000	551,250	578,812.5
Advertising(GH¢)	250,000	125,000	125,000	0
Total(GH¢)	1,447,500	1,967,112.5	1,907,424	959,822

4. Disposal effect

Sales value	600,000
Book value	0
Gain on disposal	600,000
Tax effect: 25%	150,000
After-tax cash flow	450,000

5. Money (nominal) discount rate = 1.1 * 1.03 - 1 = 13.3% or 10% + 3% = 13%. There is no material difference in the decision either way.

(Total: 20 marks)

EXAMINER'S COMMENTS

Question two was on single investment multi product investment appraisal with price and cost escalation clauses which expected the candidates to apply these escalation clauses from year one to drive or determine the other prices for the rest of the three years. Candidates were expected to determine the Net Present Value (NPV) for the project

The use of multi product appeared unfamiliar to most candidates as they struggled to determine how to work or solve the question either to approach the question from each product computation and consolidating the two or consolidate the two from the onset. This part consumed a lot of time and pages in the answer booklet.
The candidates' performance was moderate with few good answers that enabled those candidates score very good marks.

QUESTION THREE

a)

i)

Transaction risk is the risk of an exchange rate changing between the transaction date and the subsequent settlement date. This type of risk is primarily associated with imports and exports. It has a potential impact on the cash flows of a company. The degree of exposure involved is dependent on (1) the material size of the transaction, (2) the time period before the expected cash flows occur, and (3) the anticipated volatility of the exchange rates.
In the case of Dadisen PLC, if the Ghana cedi strengthens (weakens) against the US dollar during the 13 weeks before it pays for its US supplies, the company will make a gain (loss).

Translation risk is an accounting risk. It arises when the reported performance of an overseas subsidiary is translated into home-based currency terms for consolidation purposes and is distorted because of a change in exchange rates. Since DADISEN Plc intends to have foreign operations but not foreign subsidiaries, it is less likely to be affected by translation risks.

Economic risk is the variation in the present value of expected cash flows due to unexpected changes in exchange rates. It has a long-term impact on business value. The risk can occur due to the performance of local currency against trading currencies for a company or its competitors. Dadisen PLC has little to no exposure to economic risk since it sells its products in Ghana only.

(9 marks)

ii)

Impact of the currency forward on Profitability.

Spot rate of GH¢22
Exchange gain = GH¢(22-17) * 1 million = GH¢50 million ***(3 marks)***

Spot rate of GH¢15
Exchange Loss = GH¢(15-17) * 1 million = GH¢2 million ***(3 marks)***

b)

Disadvantages of mobile money compared to a traditional bank account

- Higher fees: Individual mobile money transactions may be subject to higher charges for transactions and withdrawals
- Lower regulation: Mobile money providers are not banks and therefore may be subject to lower levels of regulation than a traditional financial service company.
- Additional taxation: Additional tax may be payable if transactions are undertaken using mobile money
- Limited range of services: Mobile money services do not offer the same range of services that are typically available to bank account holders.

(4 points at 1.25 marks each = 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question three which was on currency risk management and mobile money technology was theory base and received varying degree of responses from average to excellent answers. Candidates were required in (a) (i) to describe Transactional, Translation and Economic risk giving examples of how this could impact the financial statements of the company and in (a)(ii) to compute the effect of forward rates and actual market spot rates on the profitability of the company based on the exchange rate differentials for those two scenarios. This received good answers with a high pass rate.

The (b) aspect tested the candidates on the new aspect of the syllabus on technology with candidates required to explain four disadvantages of mobile money compared to the traditional banking, which also received excellent answers from the candidates

This was second best answered question in the exams and contributed to the improvement in the overall pass rate.

QUESTION FOUR

a)

i) This problem is akin to a dividend discount model. The main task is knowing the terminal value in Year 3. Students can draw the timeline and appropriately discount cash flows back to Year 0. Terminal value (TV) = 0.7m * (1.05) / (0.15 - 0.05) = 7.35m. Recall, TV can be computed using: $CF_3(1+g) \div (r-g)$. Finally, the enterprise value at Year 0 can be computed as: $EV_0 = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \frac{CF_3 + TV}{(1+r)^3} = \frac{0.5}{(1.15)^1} + \frac{0.6}{(1.15)^2} + \frac{0.7 + 7.35}{(1.15)^3}$ = 6.18 million.

(5 marks)

ii)

	Mesewa	Dunsin	*Mean*	Djokoto's Price
PE ratio	36	30	33	=33*.10 = 3.3
PS ratio	2.25	2	2.125	3.4
PB ratio	4	4.5	4.25	3.4
Average Djokoto's Price				**3.37**

(6 marks)

iii) **Advantages of business combination**

- Larger firms can raise capital more easily
- Business combinations result in pooling of management and other resources thereby eliminating inefficiencies
- Business combinations may lead to diversification which reduces risk of operations

(Any 2 relevant points for 2 marks)

Disadvantages of business combination

- Over-optimistic assessment of economies of scale which eventually does not materialize
- Management of the new company may become difficult
- Inadequate preliminary investigation may lead to wrong valuation

(Any 2 relevant points for 2 marks)

b)

i) **Circumstances under which single-source procurement is appropriate**

According to the Public Procurement Act, 2003 (Act 663) and its amendments (Act 914), single-source procurement is generally limited to specific circumstances to ensure competition, transparency, and value for money. Single-source procurement would be appropriate for the FGA's procurement of the computers and printers under the following conditions:

1) **Exclusive Rights:** The goods or services are only available from one supplier or contractor, and no reasonable alternatives or substitutes exist. Single-source procurement would be justified if the computers have unique features or proprietary technology essential for the FGA's operations and only one supplier provides these.
2) **Urgency:** The need for goods or services is exceptionally urgent due to unforeseen events, making the time required for open tendering impractical. Single-source procurement will

be justified if the computers are required immediately due to a sudden system failure or an urgent project.

3) **Compatibility with Existing Equipment:** The goods or services must match existing equipment, technology, or services, and sourcing from another supplier would render the integration impractical or costly. If the FGA's current systems are compatible only with a specific brand or model, and this compatibility is critical for operations, single-source procurement would be appropriate.
4) **Physical, Technical, or Policy Reasons:** The requirement can only be supplied by one source due to physical, technical, or policy reasons, such as when the equipment is proprietary and only obtainable from one supplier. If the required computers are proprietary and only available from one manufacturer, and this equipment is essential for specific FGA operations, this condition would justify single-source procurement.
5) **National Security Considerations:** When national security considerations are paramount, they require that the procurement be handled in a specific manner that may limit competition. If the procurement of computers involves sensitive information or systems related to national security, which necessitates limited exposure to suppliers, this would warrant single-source procurement.

In summary, the CEO should assess whether the procurement of computers and printers meets any permissible circumstances in the public procurement law and address any concerns raised by the Entity Tender Committee before proceeding with the intended single-source procurement method.

(Any 2 relevant points for 2 marks)

ii) **The role of the Entity Tender Committee**

The Entity Tender Committee is the body within the entity responsible for planning, processing, reviewing, and approving procurement decisions to ensure compliance with the public procurement law.

As the FGA falls within central management agencies, ministries, departments, and subvented agencies, the specific functions of its ETC are the following:

1) **Review and Approval of Annual Procurement Plans:**
The ETC must review and approve the FGA's annual procurement plan and quarterly updates to ensure they align with the organisation's objectives and operations. This includes confirming that procurement activities, such as the acquisition of computers, are justified and support the FGA's goals.
2) **Confirmation of Cost Items and Budget Alignment:**
The ETC is responsible for confirming that the range of cost items in the procurement plan is acceptable and matches the available funds within the FGA's approved budget. Before approving the procurement, the ETC must verify that the cost of the computers and printers is within the budget allocated for such purchases.
3) **Review of Procurement Schedules and Specifications:**
The ETC must review procurement schedules and specifications to ensure they comply strictly with public procurement law. For the proposed single-source procurement, the ETC must ensure that the specifications justify the use of this method and that the procurement process adheres to legal requirements.
4) **Securing Concurrent Approval from Relevant Tender Review Committees:**
If the procurement exceeds the ETC's threshold, the committee must secure concurrent approval from the relevant tender review committee. The ETC needs to evaluate whether the procurement of these computers requires further approval from a higher tender review committee.

5) **Facilitation of Contract Administration:**
The ETC plays a role in facilitating contract administration, ensuring that the contracts entered into are executed properly and that reporting requirements under the public procurement law are met. This includes monitoring the delivery and installation of the computers and printers to ensure they meet the contract terms.

6) **Assistance in Disposal of Stores and Equipment:**
The ETC assists the head of the entity in ensuring that any disposal of old equipment is done per the public procurement law. If the procurement involves replacing old computers, the ETC must ensure proper procedures are followed when disposing of them.

General Functions

The Public Procurement Act have the following general provisions to guide the ETC in the performance of its functions:

- Ensure that procedures prescribed by the public procurement law are followed at each stage of the procurement process.
- Work within the threshold limits specified in public procurement law.
- Exercise sound judgment when making procurement decisions.
- Review and refer to the central tender review committee for concurrent approval of procurements above the entity tender committee's threshold that have been duly processed by the procurement unit and evaluated by the appropriate evaluation panel constituted by the head of the entity.

The ETC's roles are critical in ensuring procurement is conducted legally, transparently, and efficiently. Engaging the ETC ensures that the procurement is well-founded, compliant with Ghana's public procurement laws, and aligned with the FGA's objectives while minimising the risk of future disputes or challenges. Thus, the CEO should cooperate with the Entity Tender Committee throughout the procurement process, especially in single-source procurement.

(***Any 2 relevant points for 1.5 marks each = 3 marks)***

(Total: 20 marks)

EXAMINER'S COMMENTS

This question was the best answered question in the paper as candidates provided the required answers and generally scored good marks in the (a) part which required computations of Price Earnings ratio, price to sales ratio, revenue per share and book value per share were generally well answered.

The (b) aspect which was on sole sourcing and functions of the tender committee was also well understood and well answered. This question contributed to the improvement in the overall pass rate

QUESTION FIVE

Existing policy/original

- Annual Sales: GH¢20 million
- Variable Cost of Sales: 60% of sales
- Current Credit Period: 60 days
- Current Bad Debt Ratio: 4%
- Cost of Capital: 12% per annum

	Existing policy/ Original	**Changes in Credit policy**	**Offer Discount**	**Engage a Factor**
Value of debtors	3,287,671	3,123,288	1,726,027	2,191,781
Value of debtors with discount			493,151	
Total debtors			2,219,178	
Factor cost of capital (12-2=10)				10%
Cost of capital	12%	12%	12%	12%
Sales	20,000,000	19,000,000	20,000,000	20,000,000
Credit period (in days)	60	60	45	40
Discount value	-	-		
Bad debt	0.04	0.02	0.04	1%
Factor fee				3%
	GH¢	**GH¢**	**GH¢**	**GH¢**
Sales	20,000,000	19,000,000	20,000,000	20,000,000
Less: Variable Cost	(12,000,000)	(11,400,000)	(12,000,000)	(12,000,000)
Contribution	8,000,000	7,600,000	8,000,000	8,000,000
Less: Cost of Debtors:				
Bad Debt	(800,000)	(380,000)	(800,000)	(200,000)
Interest forgone on Debtors **(W1)**	(394,521)	(374,795)	(266,301)	(122,740)
Cost of Discount			(120,000)	
Factor fee				(600,000)
Administrative Cost Savings				90,000
Net Benefit/Net Contribution	**6,805,479**	**6,845,205**	**6,813,699**	**7,167,260**

Workings
(W1) Interest Forgone on Debtors
Original = 12% x 3,287,671 = 394,521
Changes in Credit Policy = 12% x 3,123,288 = 374,795
Offer of Discount = 12% x 2,219,178 = 266,301
Engage Factor = (10% x 2,191,781 x 80%) + (12% x 2,191,781 x 20%) = 122,740

Comment:
Overall Recommendation: Abaa LTD should engage the factor to manage its receivables, as it offers the most significant the highest net contribution.

(10 marks)

b) Procedures for Chasing Overdue Payments

1) Send a Friendly Reminder: Issue a polite reminder notice immediately after the payment due date has passed.
   - Contribution: A friendly reminder serves as a courteous nudge and can often prompt payment without causing friction. It reinforces the due date and provides an opportunity for customers to address any simple issues with their payment process.
2) Follow-Up with a Formal Payment Demand: If payment is not received after the initial reminder, send a more formal demand letter detailing the overdue amount and requesting prompt payment.
   - Contribution: A formal demand reinforces the seriousness of the overdue payment. It outlines the amount owed, the due date, and the potential consequences of non-payment, creating a sense of urgency.
3) Contact the Customer Directly: Reach out to the customer via phone or email to discuss the overdue payment and understand any issues causing the delay.
   - Contribution: Direct communication can provide insights into the reasons for the delay and offer a chance to negotiate a payment plan or resolve disputes. It also demonstrates the company's willingness to work with the customer, which can strengthen the business relationship.
4) Implement Payment Arrangements: Offer flexible payment terms or installment options if the customer is experiencing financial difficulties.
   - Contribution: Providing payment arrangements shows empathy and flexibility, which can facilitate the recovery of overdue amounts while preserving the business relationship. It can also help in recovering a larger portion of the outstanding balance.
5) Escalate to Collection Agencies or Legal Action: If all previous efforts fail, consider engaging a collection agency or initiating legal action to recover the overdue payment.
   - Contribution: This step is a last resort but necessary for recovering amounts that have not been resolved through other means. It demonstrates the seriousness of the situation and can help recover funds, although it may impact the relationship with the customer.
6) Legal action: obtain a court judgement against the customer

(Any 5 points for 5 marks)

c)

i) **Build-Operate-Transfer (BOT)**

In a Build-Operate-Transfer (BOT) arrangement, the private partner is responsible for the design, financing, construction, and operation of the highway for a specified period. During this period, the private partner recoups its investment by charging tolls or other fees to users. After the concession period, the highway is transferred back to the government at no cost. ***(2 marks)***

ii) **Design-Build-Finance-Operate (DBFO)**

In a Design-Build-Finance-Operate (DBFO) model, the private partner is responsible for designing, constructing, financing, and operating the highway. Unlike BOT, the private partner may also take on some maintenance responsibilities. The government typically makes availability payments or provides shadow tolls rather than charging users directly. ***(2 marks)***

iii) **Service Concession**

Under a Service Concession, the private partner operates and maintains an existing or newly built highway while the government retains ownership. The private partner collects revenues from users, typically through tolls, and is responsible for ensuring that the highway meets specified service standards. ***(1 mark)***

(Total: 20 marks)

EXAMINER'S COMMENTS

This question posed challenges to most candidates . Candidates could only compute few of the variables but struggled to put them in a format to enable a meaningful comparison between the existing credit policy and the three proposed strategies, which were; reducing credit days, offering special discounts for early payments and the engagement of a factor. Hence, candidates could not recommend the best strategy to be adopted.

The (b) part which involved the steps to be followed to collect overdue debts received good responses. The (c) aspect which was on public private partnership also received fairly good responses from the candidates.