CERTIFIED PUBLIC ACCOUNTANTS

INTERMEDIATE LEVEL EXAMINATIONS

I1.1: MANAGERIAL FINANCE

DATE: THURSDAY 28, NOVEMBER 2024

MARKING GEUDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

MARKING GUIDE

Q1	Criteria	Marks
a)	✓ Award **0.5 Mark** for each of 6 correct computation of modified cash flows ✓ Award **1 Mark** for applying Modified Internal Rate of Return formula ✓ Award **1 Mark** for correct answer of MIRR **Maximum marks**	3 1 1 **5**
b)	Award 1 Mark for each of the five effects of taxation on investment decision	5
Q1 (C) (i)	Award **0.5 Mark** for each of 10 correct computation of cash flows	5
Q1 (C) (ii)	**Computation of nominal cash flows:** ✓ Award **1 Mark** for correct computation of nominal cash flows ✓ Award **0.5 Mark** for correct nominal	1 1
Q1 (C) (iii)	Award **1 Mark** for stating 3 rules which are used when inflation rate is uniform	3
	Total marks	**20**

a) MODEL ANSWERModified internal rate of return

MIRR= $\left(\frac{\text{Modified cash flows}}{\text{Capital outlay}}\right)^{\frac{1}{n}} - 1$

Modified cash flows =cash flows*(1+r%) ^n-year the cash flows were received

Years	Cashflows FRW"Millions	Modified Cashflows "FRW Millions"
1	85	133.75
2	90	126.44
3	95	119.17
4	100	112.00
5	95	95.00
Total modified cashflows		**586.36**

MIRR= $\left(\frac{586.36}{300}\right)^{1/5} - 1 = 14\%$

MIRR=14.34%

b) Discuss the effects of taxation on investment decision

1. **Reduction in Net Cash Flows**

Taxes reduce the cash available for investment projects because businesses must pay a portion of their earnings to the government. This directly affects the **after-tax cash flows**. For example, in the case of MUHANGA Limited, since the company is taxed at a corporate rate of 30%, it will only retain 70% of its revenues after taxes.

2. **Depreciation and Tax Shields**

Depreciation is a non-cash expense that can reduce taxable income. Businesses are allowed to deduct the depreciation expense of their capital assets (e.g., machinery) from their taxable income. The **tax shield** created by depreciation helps lower the effective tax burden, increasing the overall profitability of an investment. For MUHANGA Limited, replacing machinery could result in higher depreciation expenses, leading to a reduction in taxable income and, thus, taxes payable, improving cash flows in the early years of the investment.

3. **Impact on Cash Flow Timing**

Taxes affect the timing of cash flows and, therefore, the **time value of money**. Since tax payments are typically made annually or quarterly, the tax impact on cash flows may result in deferred benefits from certain tax deductions or credits. For example, the tax shield benefit from depreciation might not be realized immediately but can occur over several years, affecting the overall present value (NPV) and internal rate of return (IRR) of the investment.

4. **Influence on Discount Rates (Cost of Capital)**

The cost of capital used to discount future cash flows is influenced by taxation. A company can typically adjust its cost of debt in the **weighted average cost of capital (WACC)** calculation by factoring in the tax shield on debt interest. Interest payments are tax-deductible, so they reduce taxable income and the effective cost of debt.

5. **Effect on Investment Decision Based on Cash Flow Comparisons**

Taxation can influence the comparative analysis of different investment opportunities. When assessing competing projects, the after-tax profitability becomes a critical factor. The tax treatment of different investments (e.g., machinery, equipment, or intellectual property) can lead to differences in the expected return on investment.

6. **Capital Allocation**

How investors distribute their capital among various assets and industries can be influenced by tax laws. For example, tax discounts or incentives for specific investment categories (such as affordable housing, renewable energy, or research and development) might stimulate investment in such sectors. On the other hand, increased taxes on particular investment categories (such as

luxury products or speculative investments) may deter investment in such areas.

7. Risk-Taking Behavior

Investors' propensity to assume risk may be influenced by taxes. For example, greater capital gains taxes may make investors choose safer bets with more stable returns over riskier bets with possibly higher but erratic returns. This may have an effect on entrepreneurship, innovation, and the growth of new markets and technology.

8. Timing of Investments

Taxes may have an impact on when people decide to make investments. Investors may decide to accelerate or postpone investments in order to take advantage of more advantageous tax circumstances in response to changes in tax rates or incentives. For example, the expectation of greater taxes in the future could prompt short-term investments to lock in lower tax rates.

9. Foreign Investment

The flow of foreign investments is influenced by tax laws as well. Tax rates across national borders can have an impact on where companies decide to locate their operations or where investors decide to put their money. Foreign investment tax advantages and profit repatriation penalties might affect domestic enterprises' ability to compete globally.

10. Total Economic Growth

The total impact of taxes on investment choices may have an effect on the growth of the economy. Increased taxes on investment returns have the potential to lower total investment levels, which could impede job creation and economic progress. On the other hand, cleverly crafted tax breaks can encourage investment, foster creativity, and propel economic growth.

c)

i) Calculate the nominal cashflows that will be paid for the next 5 years

Raw materials	**Real cash flows**	**Nominal/Money cash flows**
Years	**FRW" Millions**	**FRW" Millions**
	A	B = A*(1.04)^n
1	120	124.80
2	120	129.79
3	120	134.98
4	120	140.38
5	120	146.00

Labour cost	Real cash flows	Nominal/Money cash flows
Years	FRW" Millions	FRW" Millions
	A	B = A*(1.03)^n
1	60	61.8
2	60	63.65
3	60	65.56
4	60	67.53
5	60	69.56

ii) Calculate the nominal (money) discounting rate

Nominal rate
(Rm=(1+Rr) *(1+RI)-1
Rm=nominal rate
Rr=real rate is 10%
Ri= general inflation rate is 5%
{(1+0.1) *(1+0.05) - 1} *100
Nominal rate=15.5%

iii) Explain the three rules that are used when the inflation rate is uniform (3marks)

a) Use nominal cash flows and nominal rate of return to evaluate project

b) Use the real cashflows and the real discounting rate to evaluate the project

c) Use nominal rate when the project has 5 years and above useful life

QUESTION TWO

MARKING GUIDE

Q2	Criteria	Marks
a) (i)	✓ Award 1 **Mark** for computation and interpretation of current ratio	1
	✓ Award **1 Mark** for computation and interpretation of quick ratio	1
	✓ Award **1 Mark** for computation of cash ratio	1
(a) (ii)	✓ Award **2 Marks** for computation of raw material duration	**2**
	✓ Award **2 Marks** for computation of work in progress duration	**2**
	✓ Award **2 Marks** for computation of finished goods duration	**2**
	✓ Award **2 Marks** for computation of account receivable duration	**2**
	✓ Award **4 Marks** for computation of accounts payable duration	**4**
	Maximum marks	**15**
b)	Award **1 Mark** for each of the four calculation of minimum rate of return	4
	Award **1 Mark** for correct advice	1
	Maximum marks	**5**
(C) (iii)	Award **1 Mark** for stating 2 advantages and 3 disadvantages of APT model	**5**
	Maximum marks	**5**
	Total marks	**25**

MODEL ANSWER
a) i)

Calculate three working capital ratios	
Current Assets	
Trade Receivables	500
Inventories	400
Cash and Cash Equivalents	200
Totals current assets	1100
Trade and Other Payables	600
Bank Loans and Overdrafts	120
1) Current ratio	
Current assets/Current liabilities:1	
=1100/720:1	1.53:1
2) Acid test ratio	
Current asset-Inventory/Current liabilities :1	
(1100-400)/720:1	0.97:1

3) Cash ratio	
Cash and cash equivalent/Current liabilities	
200/720:1	0.28:1

Interpretation

1) Current ratio of 1.53:1 means that for every FRW 1 of current liabilities the company has 1.53 of current asset

2) Acid test/quick ratio of 0.97:1 means for every FRW 1 of current liabilities the company has 0.97 of current liquid asset.

3) Cash ratio of 0.28:1meansforevery FRW 1 of current liabilities the company has 0.28 of cash.

b) **Determination of the company's working capital cycle**

Year	**2022**	**2023**
Raw materials	5,000	10,000
Work in progress	5,000	4,000
Finished goods	11,000	16,000
Account receivables	36,800	32,860
Trade Payables	32,000	36,000
Accrued expenses	4,500	5,700

Raw materials purchased	
opening raw materials + purchases - closing raw materials = cost of production	
Opening raw materials	5,000
Raw material purchases	x
Less closing raw materials	(10,000)
Equals to Cost of production	30,000
Raw material purchase (X)	**35,000**

Raw material duration	
Average raw materials/purchases of material*365days	
= (5,000+10,000) *1/2/35,000*365	78 days
Work in progress duration	
Average W.I.P/Cost of production*365 days	
(4,000+10,000) *1/2 /30,000 *365	85 days
Finished goods duration	
Average finished goods/cost of production*365 days	
13500/30000*365	164 days
Account receivable days	
Average account receivables/credit sales*365	
34830/85000*365	150 days
Accounts payable days	
Average account payables/credit purchases*365	
(36,000+5,700+32,000+4,500)*0.5/30000*365	476 days

Working capital cycle	
Raw material duration	78
Work in progress duration	55
Finished goods duration	164
Account receivable days	150
Accounts payable days	(476)
Working capital cycle	- 29 days

c) Estimate the required rate of return on the two portfolios using the Capital Asset Pricing Model, and advise the management which portfolio should be selected.

To evaluate which investment portfolio is better using the Capital Asset Pricing Model (CAPM), we need to calculate the required rate of return for both Portfolio A and Portfolio B based on the given information.

CAPM formula:

$R_i = R_f + \beta_i \times (R_m - R_f)$

Where:

- Ri = Required rate of return for the portfolio
- Rf= Risk-free rate (5%)
- βi = Weighted beta of the portfolio
- Rm= Expected return on the market portfolio (15%)

Calculate the Weighted Beta for Each Portfolio

Portfolio A:

Investment 1: East Africa Investment

- ✓ Investment amount: FRW 50 million
- ✓ Expected return: 20%
- ✓ Beta: 1.5

Investment 2: Venture Stage Investors

- ✓ Investment amount: FRW 50 million
- ✓ Expected return: 16%
- ✓ Beta: 0.8

The total investment in **Portfolio A** is FRW 100 million (50 million + 50 million).

The **weighted beta** for **Portfolio A** is:

$\beta_A = \left(\frac{50}{100} * 1.5\right) + \left(\frac{50}{100} * 0.8\right) = 1.15$

Portfolio B:

- **Investment 1**: Satori Venture
  - ✓ Investment amount: FRW 50 million
  - ✓ Expected return: 22%
  - ✓ Beta: 1.22
- **Investment 2**: Africanus Investments Ltd
  - ✓ Investment amount: FRW 50 million
  - ✓ Expected return: 28%
  - ✓ Beta: 1.44

The total investment in **Portfolio B** is also FRW 100 million (50 million + 50 million).

The **weighted beta** for **Portfolio B** is:

$\beta_B = \left(\frac{50}{100} * 1.22\right) + \left(\frac{50}{100} * 1.44\right) = 1.33$

Then the Required Rate of Return for each portfolio using CAPM Formula is:

Portfolio A

$R_A=R_f+\beta_A(R_m-R_f) = 5\%+1.15\times(15\%-5\%) =$ **16.5%**

Portfolio B

$R_B=R_f+\beta_B(R_m-R_f) = 5\%+1.33\times(15\%-5\%) =$ **18.3%**

Advice

If the management prefers higher returns and is willing to accept the higher risk, then **Portfolio B** would be the better choice, offering a higher expected return of 18.3%.

If the management prefers to take on less risk, then **Portfolio A** is a more conservative option, with a required rate of return of 16.5%.

In summary,

Portfolio B should be selected if the goal is to maximize return and the company is comfortable with a higher risk level.

c) Two advantages and three disadvantages of APT model

Advantages

i) It can be extended to a multi-period frame work
ii) Investors can customize the model to fit to their investment setting because APT does not dictate which component to be included the opportunity of sporting undervalued asset may make it easier for investor to identify and take advantages of these differences thereby yielding larger returns

Disadvantages

i) The model involves complex statistical analysis call factor analysis whose results are hard to interpret
ii) It does not clearly identify what systematic or economic factors should be included in the model
iii) An arbitrage portfolio with no capital investment and which generate positive results can be achieved in the real world

QUESTION THREE

MARKING GUIDE

Q3	Criteria	Marks
a)	✓ Award 1 **Mark** for the correct computation of earnings to shareholders ✓ Award 1 **Mark** for the correct computation of earnings per share ✓ Award 1 **Mark** for the correct computation of number of shares ✓ Award **1 Mark** for correct answer of market price **Maximum marks**	1 1 1 **1** **1** **4**
b)	Award 0.25 Marks for twelve correct values of assets and liabilities Award **1Mark** for determining net asset Award **1Mark** for correct answer	3 1 1 **5**
(C)	Award 1**Mark** for correct explanation of MM theory Award **1 Mark** for each of the five assumption **Maximum marks**	1 5 **6**
	Total marks	**15**

MODEL ANSWER

a) Calculate the value of the company using earnings model

MPS=P/E*E.P. S	
Earnings per share (EPS)	
Total earnings attributable to ordinary shareholders/number of ordinary dividends	
Earnings attributable to shareholders	
210,000,000*(1+20%) ^1=252,000,000	
Ordinary shares	FRW 500,000,000
Par value	FRW 200
Number of shares =500,000,000/200	2,500,000
E.P. S =252,000,000/2,500,000	FRW 100.8
M.P.S=P/E*E.P.S =6.4*100.8	**FRW 645.12**

b) Determine the value of GLE using asset-based model

MPS = [Total assets - intangible assets -all liabilities including preference share]/ Number of ordinary shares	**Answer 2024**
Assets	**"FRW Millions"**
Land and Buildings	201
Plant and Machinery	58
IT equipment	40
Goodwill	120
Inventories	420
Trade receivables 120 milllion-24million	96
Other Receivables	80
Cash in hand and at bank	200
Total assets	**1215**
Less:	
Intangible assets (Goodwill)	-120
12% debentures	-120
Trade and Other Payables	-90
Bank Overdrafts	-39
Net asset	**846**
MPS =846,000,000/2,500,000	**338**

c) Discuss the dividend irrelevant theory and company valuation (MM theory)

The theory asserts that a firm's dividend policy has no effect on its market value and cost of capital.

According to MM dividend policy is a passive residue determined by the firm's need for investment funds. It does not matter how the earnings are divided between dividend payment to shareholders and retention. Therefore, optimal dividend policy does not exist. Since when investment decisions of the firms are given, dividend decision is a mere detail without any effect on the value of the firm.

This theory states that a company's dividend policy has no bearing on the valuation of business or wealth of its shareholders in a perfect market with no taxes, transaction cost or asymmetric information.

Assumptions

MM base on their arguments on the following assumptions:

- ✓ No corporate or personal kites
- ✓ No transaction cost associated with share floatation
- ✓ A firm has an investment policy which is independent of its dividend policy (a fixed investment policy)
- ✓ Efficient market: all investors have same set of information regarding the future of the firm
- ✓ No uncertainty: all investors make decisions using the same discounting rate at all-time i.e required rate of return (r) = cost of capital (k)

The **MM Proposition I** states that the total value of a firm is determined by its earnings power and risk, rather than by how it distributes profits (dividends or retained earnings). Whether a firm pays dividends or reinvests earnings, its value is the same.

MM Proposition II focuses on the cost of equity capital and how it is affected by the firm's leverage, which suggests that the expected return on equity increases with leverage, but the overall cost of capital remains constant in a perfect market.

Company Valuation (MM Theory)

In the MM framework, the value of a company is determined by its overall risk and profitability, not its dividend policy or the structure of its financing. The firm's value is calculated as the present value of its future expected earnings, discounted at a rate that reflects its business risk.

SECTION B

QUESTION FOUR

MARKING QUIDE

Question	Criteria	Marks
Q1 (a)	✓ Award **1 Mark** for clear definition of corporate social responsibility ✓ Award **1 Mark** for each of the three argument favouring corporate social responsibility **Maximum marks**	1 3 **4**
Q1 (b)	(i) Award **2 Marks** for clear definition of Venture Capital **Maximum marks** (ii) **Calculation of cost of capital** ✓ Award **2 Marks** correct calculation of Cost of Equity ✓ Award **2 Marks** correct calculation of Cost of debt ✓ Award **2 Marks** correct calculation of Cost of Preference share **Maximum marks**	2 **2** 2 2 2 **6**
Q1 (c)	✓ Award **1.5 Marks** for correct computation of Unlevered firm value ✓ Award **1.5 Marks** for correct computation of Levered firm value ✓ Award **1 Marks** each for two assumption of MM Hypothesis **Maximum marks**	1.5 1.5 2 **5**
Q1 (d)	✓ Award **1 Marks** each for three assumption NOI approach	3
Total		**20**

MODEL ANSWERS

(a) Define the term corporate social responsibility and give three arguments favoring corporate social responsibility to the company.

Corporate Social Responsibility (CSR) is defined as “fulfilling a role wider than your strict economic role” or: “acting as a good corporate citizen” and it is used to describe the actions of a private, commercial organization to the public.

Arguments in favour of Corporate Social Responsibility are:

1. Creates positive Public Relations for the organisation, or, as a minimum avoids bad public relations
2. Helps attract new and repeat customers
3. Improves staff recruitment, motivation and retention
4. Helps keep the organization within the law

(b) Detailed answer

(i) Venture capital: This is defined as the means of financing the start-up, expansion or purchase of a company, whereby the venture capitalist acquires an agreed proportion of the share capital (equity) of the company in return for providing the requisite funding. To look after its interests, the venture capitalist will usually want to have a representative appointed to the board of the company as venture capital is a risky investment.

(ii) Calculation of the cost of capital for each component in capital structure.

1. **Cost of Equity (Ke)**

$$K_e = \frac{do(1+g)}{po} + g$$

Ke= Cost of equity
D_o=Dividend in year
P_o= Current share market price
g=growth rate

Ke $= \frac{14(1+0.1)}{85} + 0.1 = 28\%$

2. **Cost of debt (Kd)**

$$Kdt = \frac{I(1-T)}{mvd} * 100$$

Where:

K_{dt} =After tax cost of debt
I= Interest
T= Tax
Mvd=Market price of debenture

Kd $= \frac{12\%(1-30\%)}{92} * 100 = 9.13\%$

3. **Cost of 10% preference share capital**

Kp $= \frac{D1}{Mvp} * 100$

Where

K_p= cost of preference stock
D_p = Dividend of preference stock
Mvp = market price of preference share

Kp = $\frac{10\%*20}{35} * 100 = 5.71\%$

(c) Computation the value of each firm simply comment on the results obtained using Modigliani-Miller hypothesis (MM).

Value of the Firm = $\frac{EBIT}{Ko}$

Value of Levered (L) = Value of Un-Levered (U)

L = U = $\frac{EBIT}{Ko}$

Value of U = $\frac{EBIT-Kd}{Ke} = \frac{110,000,000-0}{0.1} = 1,100,000,000$

Without tax, L = U

(d) Assumption of Net Operating Income as per MM:

1. Capital markets are perfect and thus there are no transaction costs.
2. The average expected future operating earnings of a firm are represented by subjective random variables.
3. Firms can be categorized into "equivalent return" classes and that all firms within a class have the same degree of business risk.
4. They also assumed that debt, both firm's and individual's is riskless.
5. Corporate taxes are ignored.

QUESTION FIVE

MARKING GUIDE

No		Marks
a)	1 Mark for each correct explanation of advantages of JIT (1*5)	5
b) i)	1 Mark for formula and 1 Mark for computation of EOQ	2
ii)	1 Mark for holding cost, 1 Mark for ordering cost and 1 Mark for total relevant cost	3
c) i)	1 Mark for each correct current ratio (1*2)	2
ii)	0.5 Marks for each correct quick ratio (0.5*2)	1
iii)	0.5 Marks for each correct debtor's period (0.5*2)	1
iv)	0.5 Marks for each correct Inventory days (0.5*2)	1
v)	1 Mark for each correct current ratio (1*2)	2
	Total Marks	20

MARKING MODEL

a) Giving FIVE advantages that ALPHA limited would enjoy if they adopt the new policy just in time model

i) Reduced cost: it helps to minimizes holding and storage cost by maintaining inventory level just in time for production

ii) Improve cash flows; with just in time capital is not tied up in excessive stock. This free up funds for other business needs

iii) Enhances efficiency; JIT promotes a streamline production process by delivering components and materials precisely when they are needed.

iv) Quality control; since JIT requires coordination between suppliers and manufacturers, it encourages a focus on quality control the timely arrival of stock ensures that only necessary and high-quality components are used in production.

v) Flexibility and responsiveness: JIT enables companies to adopt quickly to changes in customers demand or market condition by maintaining low level of inventory, business can shift production to meet changing requirements allowing for create flexibility and responsiveness

vi) Reduces waste: JIT minimizes excess inventory, which helps reduces the risk of obsolete or expired goods this lowers the chances of waste due to unsold or spoiled product.

vii) Customers satisfaction; by responding quickly to changing market demand and delivery product promptly JIT can enhance customer needs can improve relationship and increase loyalty.

b)
i) Optimal stock level

E.O.Q= (2D*CO/CH)^1/2

E.O.Q = (2*1,250,000*500/100) ^1/2

E.O.Q = 3,536 units

Optimal Stock level or Economic Order Quantity (EOQ) = $\sqrt{\frac{2DS}{H}}$

Where:
D is Annual demand (in units)
S is ordering cost per order
H is Holding (carrying) cost per unit per year

Annual Demand D = $\frac{Annual\ usage\ value}{Purchase\ price\ per\ unit} = \frac{1{,}250{,}000{,}000}{1{,}000}$ = 1,250,000 units
Carrying cost per unit H = 10% × 1,000 = FRW 100 per unit per year
EOQ = $\sqrt{\frac{2 \times D \times S}{H}} = \sqrt{\frac{2 \times 1{,}250{,}000 \times 500}{100}}$ = 3,535.53 units

ii) Calculation of the relevant cost
Ordering costs = Number of orders per year × cost per order
Total ordering cost = $\frac{D}{EOQ}$ × S
Total ordering cost = $\frac{1{,}250{,}000}{3{,}535.53}$ × 500 = FRW 176,777

Holding cost = Average inventory × holding cost per unit
Total holding cost = $\frac{EOQ}{2}$ × H

Total holding cost = $\frac{3{,}535.53}{2}$ × 100 = FRW 176,777
Total relevant cost = Total ordering cost + Total holding cost

Total relevant cost = FRW 176,777 + FRW 176,777 = FRW 353,554

b) BOKASA limited ratios evaluation of overtrading

Ratios	Formulae	2022	2023
i)Current ratio	Current asset/Current liabilities :1	132,000/145,640:1 =0.906:1	183,000/218,500:1 =0.8375:1
ii)Quick ratio	(Current asset-inventory)/Current liabilities :1	(132,000-80,000)/145,640:1 =0.3570:1	(183,000-112,000)/218,500:1 =0.3249:1
iii)Debtors period	Debtors/credit sales*360 days	40,000/400,000*360 days = 36 Days	(56,000+40,000)*0.5/500,000*360 days = 35 days
iv)Inventory days	Inventory/cost of sales*360 days	80,000/300,000*360 days =96 days	(112,000+80,000)/373,000*360days =92 days
v)Asset turnover	Sales/Total assts	400,000/272,000 =1.4705 times	500,000/(337,000+272,000)*0.5 =1.6420 times

vi) **Using three symptoms on the above case, Comment if the company is overtrading**

Based on the provided ratios, we can **reasonably conclude** that the company may be **overtrading** for the following reasons:

1. **Liquidity Issues (Current Ratio and Quick Ratio)**: The company's **current ratio (0.84)** and **quick ratio (0.33)** are both significantly below the ideal level of **1**, indicating that the company is **struggling to meet short-term obligations** and might be overextending its working capital.
2. **Inefficient Inventory Management (Inventory Days of 92)**: A high **inventory days ratio** of **92** suggests that the company is holding onto inventory for longer than necessary. This could be an indication of **overproduction** or **slow sales**, both of which are signs of overtrading. The company may be trying to generate more sales than it can realistically handle, leading to **excessive stock** and **increased holding costs**.
3. **Moderate Debt Collection Period (35 Days)**: While the **debt collection period** of **35 days** is within a normal range, the company could still improve by collecting faster. Coupled with other liquidity concerns, a moderate debt collection period could further strain the company's cash flow.
4. **Strong Asset Turnover**: The **asset turnover ratio** of **1.64** indicates good **asset utilization**. However, without proper liquidity and inventory management, high asset turnover may not be sufficient to ensure long-term sustainability.

QUESTION SIX

a)	Details	Marks
	2 Marks for each correctly explained factors (2*4)	8
b)	1 Mark for each stakeholder (1*4)	4
	1 Mark for each key interest (1*4)	4
c)	1 Mark for identification and 1 Mark for explanation of unethical behavior	4
	Total Marks	**20**

a) The following are ESG Related matters to check while considering investment

(a) The investment manager should consider the following **Environmental, Social, and Governance (ESG)** aspects when planning and implementing the cement project:

1. Environmental Impact Assessment

- ✓ **Environmental sustainability** is crucial when dealing with industries like cement production, which can lead to significant carbon emissions and environmental degradation. The investment manager should ensure that the project undergoes a comprehensive Environmental Impact Assessment to identify potential negative impacts on local ecosystems, such as air and water pollution, land degradation, and resource depletion.
- ✓ Implementing **sustainable practices** like energy-efficient technologies, recycling waste materials, and using alternative, eco-friendly raw materials can minimize **environmental harm.**

2. Social Impact on the Local Community

- ✓ The project should consider the **social welfare of the surrounding communities**. This includes ensuring that the project does not displace local populations, damage agricultural lands, or harm local livelihoods.
- ✓ The investment manager should engage with **local communities** and other stakeholders to understand their concerns and work to integrate their needs into the project. This might involve creating jobs, improving local infrastructure, and investing in community health and education initiatives.

3. Governance and Ethical Conduct

- ✓ The investment manager should establish **strong governance practices** to ensure transparency, accountability, and ethical behavior throughout the project's lifecycle. This involves ensuring compliance with **local regulations**, international standards, and ensuring fair labor practices.

- ✓ The foundation should also implement **anti-corruption measures** and ensure that the project's operations are monitored by an independent body to prevent malpractices.

4. Long-term Sustainability and Resilience

- ✓ Consider how the cement plant can be **economically sustainable** in the long run without overexploiting local resources. This includes managing natural resources, adhering to labor laws, and ensuring that profits from the project contribute to the community's long-term development rather than causing exploitation.

b) 4 key stakeholders and interest in business

When considering the cement project, Rwandoha Foundation should be aware of the various stakeholders involved, each with their own interests:

1. **Local Communities**: whose **Interest** are primarily concerned with the potential impact of the cement plant on their environment, health, and livelihoods. They want to ensure their **land, water, and air quality** are not negatively impacted, and that the project brings **economic opportunities** like employment, improved infrastructure, and community benefits.
2. **Government and Regulatory Authorities**: whose **Interest** is in ensuring that the project complies with **environmental, health, and safety standards**, and that it contributes to national development, such as job creation, local economic growth, and tax revenues. They also want to ensure that ESG criteria are met to avoid negative externalities and social unrest.
3. **Investors and Shareholders (Rwandoha Foundation)**: whose **Interest** are primarily concerned with the **return on investment (ROI)** and the financial viability of the cement project. The Foundation, in particular, is also interested in ensuring that a portion of the profits is directed to its philanthropic sub-fund, maintaining alignment with its mission. Investors will also value the **long-term sustainability** of the project from an ESG perspective.
4. **Employees and Workers**: whose **Interests** are interested in **fair wages**, **job security**, and **safe working conditions**. They will also be concerned with the company's commitment to their well-being and how the project impacts their community.
5. **Suppliers and Contractors**: whose **Interests** are interested in **contract terms**, **timely payments**, and establishing a long-term business relationship. They also want assurance that the company's ESG standards will not affect their operations.
6. **Customers**: whose **Interest**s are especially large-scale construction companies, are interested in the **quality, cost-effectiveness**, and **sustainability** of the cement. They may also be concerned with the ethical practices of the company, especially in terms of sourcing materials and minimizing environmental impact.

c) Unethical behaviors that will CEO and HR manager will have.

Unethical Behavior of the CEO (At least one)

1. **Misleading Financial Reporting**: The CEO might inflate financial performance figures or hide losses to **impress investors** or manipulate stock prices, which is a serious ethical breach.
2. **Conflicts of Interest**: The CEO might engage in **self-dealing** by making decisions that benefit them personally, such as awarding contracts to companies in which they have a financial interest.
3. **Ignoring ESG Considerations for Personal Gain**: If the CEO disregards the environmental, social, or governance aspects of the project for personal or financial reasons, such as cutting costs at the expense of safety, sustainability, or the welfare of employees, this is unethical.
4. **Lack of Transparency**: The CEO may withhold key information from shareholders or the public, such as failing to disclose **environmental risks** or ignoring regulatory compliance issues to protect the company's image.

Unethical Behavior of the HR Manager (At least one)

1. **Discrimination in Hiring or Promotions**: The HR manager might engage in **unfair hiring practices**, such as discriminating based on gender, race, or other irrelevant criteria, or showing favoritism in promotions.
2. **Violation of Employee Privacy**: The HR manager might invade employee privacy by **monitoring personal information** or not safeguarding personal data as per legal requirements.
3. **Exploitation of Workers**: The HR manager could fail to ensure **fair compensation**, or could pressure employees to work under unsafe conditions, neglecting workplace safety regulations.
4. **Failure to Address Harassment or Abuse**: The HR manager might ignore or fail to properly address claims of **harassment** or **abuse** in the workplace, thereby creating an unsafe or hostile work environment.

End of marking guide and model answers