

**INVESTIGATION INTO THE WORKING CAPITAL MANAGEMENT
PRACTICE AT COCOA PROCESSING COMPANY LIMITED,TEMA.**

BY

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**A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING
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I hereby declare that this submission is my own work towards the MBA and that to the best of my knowledge, it contains no material previously published by another person nor Material which has been accepted for the award of any other degree of the University, Except where due acknowledgement has been made in the text.

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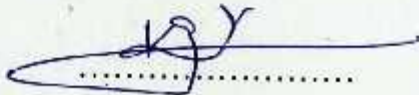
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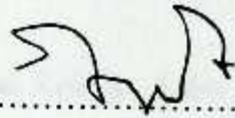
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ABSTRACT

The paper sought to investigate into the working capital management practice of the cocoa processing company as a way of understanding how the company had been managed over the years in that it is a strategic agro-processing company that adds value to the nation's major cash crop cocoa and is also much susceptible to failure. An exploratory and analytical research design was adapted to study the working capital management components of the company through a questionnaire which was administered on the company. The Data analysis was based on ratio and chart analysis of the data gathered from the company's financial statements. The study concludes that the company has so far been managed well and that it has an average liquidity position from the following performance: Inventory turnover ratio ranges between 4.3-8.02 times, Debtor days ranges between 64-148 days, payable days between 244-573, current ratio between 0.74-1.48:1, quick ratio of between 0.20-0.94:1. This was as a result of a project loan the company contracted. The company is currently meeting its contractual obligation with respect to the loan.

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CHAPTER ONE

1.0 RESEARCH INTRODUCTION AND CONTEXT

1.1 BACKGROUND OF THE STUDY

Most businesses all over the world have had it tough to grapple with the management of working capital. The problem of working capital therefore brings out this question "can a company that is making profit and has great prospects for the future fail?"

Profitable businesses have collapsed, wind up or liquidated for lack working capital. Some businesses have collapsed due to overtrading. This occurs if you have insufficient working capital and try to increase sales and this over-stretch the financial resources of the business. www.Excelplan.com

According to (Pandey, 2002), gross working capital refers to a firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year, that is, an operating cycle and this includes cash, short term securities, receivable (debtors) and inventory. Net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders on the business which are expected to mature for payment within one accounting year and include creditors (accounts payable), bills payable and accrued (outstanding expenses). A positive networking capital will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets.

The management of these four major components of working capital helps to ensure business survival and growth. Every business is supposed to maintain a certain level of cash to help it run effectively and efficiently. This can be done by ensuring that the business prepares a cash budget to determine the cash requirement at any point in time to avoid maintaining excess cash either at the bank or in the office. The Keeping of excess cash is inefficiency. The absence of this results in liquidity problems for a company.

When the debtors (receivable) of a company do not pay on their due dates, it denies the business the needed cash to run its operations. This then implies that there is inefficiency in the management of debtors of the company. For efficiency, there should be a clear credit policy on debtors, if this does not happen, most debtors will end up being bad debts.

On the part of inventory or stock, besides cash, it is inventory that sustains the business, as inventory is part of the core activity of a business. Therefore inventory that is not managed well will result in the company running out of stock which may subsequently result in the loss of customer goodwill, impeding the production process and constraining the availability of goods. This will ultimately result in a higher re-order cost.

On the other hand, when stocks are not well managed and the business runs excess stocks the situation will result in locking up of the capital and it may also result in obsolescence, where technological change results. The lack of working capital impacts a business negatively on a business. And as a result business will not be able to meet its

creditors (payable) bills as and when they fall due. Suppliers here is used in its widest sense to include employees as suppliers of labour?, prospective suppliers of input materials, actual suppliers and other business operational cost (utility bills), all these result in the loss of customer good will.

Big companies like the erstwhile Ghana National Trading Company (GNTC) with several subsidiaries have folded up. Nsawam Cannery, manufacturers of canned tomatoes have all faded off the business radar and that all canned tomato paste used in Ghana has to be imported, until importation was suspended by the government of Ghana in the year 2007.

Besides the fact that some companies could not survive the high inflationary periods that characterized the business environment in the late 1980's and 1990's, some businesses have performed creditably and continue to make progress. It will be recalled that a few years back, Ghana Water Company Limited purchased receipt books inventory that was to last the company for a period of one hundred years(ghanaweb, 2002). If the water company had had an effective working capital management policy in place, the practice would have been more efficient

1.2 STATEMENT OF THE PROBLEM

Working capital management practice refers to the practice by which a company puts in place policies that ensure that there is cash or liquidity with which the company

can generate short term cash from its current assets and also meet its short term liabilities within the year.

This practice does not happen in many companies both in developed and developing countries. According to (Kyd, 2005) in the United States alone, 40,000 companies file for bankruptcy. One of the key elements in companies that file for bankruptcy is weak working capital management practice. When effective, the practice ensures that adequate policies are put in place that ensures that there is the right trade off between liquidity and profit.

The importance of working capital management policy is that it ensures that the resources of the company are not overstretched, creditors are paid when due, ensures inventory (raw material, work in progress and finished goods) is available to facilitate uninterrupted production to meet customer demands at all times. The policy also ensures that amount due from debtors are collected to minimise bad debts.

In Ghana, a lot of companies that were owned by government have been poorly managed and this has led to the liquidation of some of them. Among some of the factors that have led to their poor management and liquidation are poor working capital management practices. (Addo and Nipah, 2007). However cocoa processing company limited in spite of being a government company have overcome the challenges of liquidation that confronted other companies.

In a developing country consequences of poor working capital management practice can have dire implications for Gross Domestic Product (GDP) growth as liquidated companies destroy national economic value to the nation – loss of production,

lost employment opportunities, lost taxes to government and impairment of economic growth. The situation of Cocoa Processing Company, when researched and understood can be a good example for other companies in Ghana to follow hence this study.

1.3 OBJECTIVE OF THE STUDY

The research was guided by the following general and specific objectives

1.3.1 General Objectives.

The general objective of the study was to investigate the working capital management practice of the cocoa processing company limited (CPC) of Ghana and determine the extent to which the practices comply with acceptable standards.

1.3.2 Specific Objective

In order to attain the general objectives of the study the following specific objectives were outlined.

- 1) To analyse the working capital and working capital cycle of CPC (accomplished in pages...43.....to...44.....)
- 2) To find out stock management of CPC and the type of practice the company is using.(accomplished in pages...44.....to...47.....)

- 3) To evaluate the trade debtors (receivable) management and analyse the extent of the practices on revenue mobilization. (accomplished in pages...47.....to...50.....)
- 4) To determine cash (including bank) management and cash disbursement.(accomplished in pages...50.....to...52.....)
- 5) To evaluate the trade creditors practice of the company (accomplished in pages...52.....to...53.....)
- 6) To recommend where appropriate practices that may improve the working capital management practice of the company (accomplished in page...62...to 63...).

1.4 SIGNIFICANCE OF THE STUDY

The study of working capital management is relevant to any type of business be it small or large. The need for working capital to run the day to day business activities of an organisation cannot be over emphasized. It is rare to find any business which does not require any amount of working capital and therefore imperative for a commercial business organisation to have a clear policy on its working capital management because that propels business.

This study has become necessary in that most businesses in the world have folded up, liquidated or become bankrupt because of the un-coordinated way in which

the businesses are run. When we talk of working capital management, we are indeed talking about the management of the various components of both current assets and current liabilities. It is important to state that businesses that are making profit and have prospects for the future have failed for lack of financial experts to guide them through working capital management. Any business that takes due cognizance of working capital management also appreciates the operating cycle of business.

The operating cycle of a trader/businessman is how to maintain some form of minimum cash balance so as to replenish their stock at any point in time. The operating cycle of a manufacturing concern is not so. Here, it involves different phases which are acquisition of resources, manufacture of the product and the sale of the product. The source of procuring raw materials should be reliable in terms of lead time, price and quality.

1.5 JUSTIFICATION OF THE STUDY

This research was motivated by the desire to better understand how working capital is managed by public manufacturing companies as inefficient cash management has destroyed a number of public manufacturing companies in Ghana in the past such as Juapong Textiles. (Addo, 2006) and Nsawam Cannary. This will enable me see at firsthand working capital management practices by Ghanaian Companies and provide useful learning to stem the problem. This problem is not limited to Ghana. Only 7% of Canadian firms have been reported to have formal working capital policies. ([Http/bnet.com](http://bnet.com)).

Similarly, a number of companies in Ghana were forced into liquidation between the 60's and the 90's or have recorded weak business results under such conditions of poor working capital management. Most African nations including Ghana export basically primary products which prices are determined by the developed nations. It has been the desire of most governments in Africa to add value to their primary products before exporting them so that their foreign earnings position is enhanced.

In Ghana, cocoa makes up 20% of our total export earnings at a production level of 500,000 tonnes (2004-2005 figures). Cocoa processing company also processes 65,000 tonnes of the raw-cocoa beans for home use as well as for export. CPC contributes a lot to the foreign exchange earnings of the country and is making frantic effort to process up to 40% of Ghana cocoa beans. (www.goldentree.com)

The company has installed new cocoa processing equipment(facility) which was opened in October ,2005 to ensure that the idea of processing up to 40% of the raw beans production become a reality.(www.goldentree.com) The expansion undertaken is likely to create employment and also enhance the country's foreign exchange earnings, since it is the best producer and exporter of natural cocoa products. In the light of the above facts, it is imperative to understudy the working capital management practices of the above company to ensure that such a strategic asset of the nation is not run down as it has happened to several other public trading and manufacturing companies.

Finally, the study results will be available to students in academia companies listed on the Ghana Stock Exchange and the Association of Ghana Industries.

1.6 METHODOLOGY

The study is basically an exploratory and analytical research. Data on working capital management variables were gathered from the study area and analysed base on the objectives of the study. The instrument used in gathering the data for the research work was self administered questionnaire and the collection of secondary data (financial statements). Data analysis was baed on ratio and chart analysis. Furthermore, data from the financial statement of the case the company was made use of.

1.7 SCOPE OF STUDY/LIMITATION OF THE STUDY

Fundamentally, the research was limited to the working capital management practices of CPC over a five year period with focus on the following areas; cash management, accounts receivable management, inventory management and payables (trade creditors and bills). The study was restricted to a one case study which was the cocoa processing company Ghana limited. The study was restricted to one case study because of lack of funding to embark on an elaborate research. Besides, the researcher was constrained by time. Again the data collection source was Tema and that researcher had to shuttle between Kumasi and Tema several times before information was collected. Finally, most of the literature source used for the research was specifically located at the Central University Library Mataheko Accra.

1.8 ORGANISATION OF THE STUDY

The organisation of the study was set out as follows. The study is composed of five chapters. The first chapter deals with the background of the study, problem statement, objective of the study, significance of the study, justification of the study, research methodology, and the limitation of the study and scope.

Chapter two reviews related literature on working capital management.

Chapter three deal with methodology employed in collecting, analysing research data and organisational profile.

Chapter four considers the empirical results of working capital management practice of cocoa processing company which includes financial statement analysis, ratios and trends.

Chapter five, deals with the summary, conclusions and recommendations of the study

REVIEW OF RELEVANT LITERATURE

2.0 INTRODUCTION

Working capital is essential for any business to succeed because it is becoming increasingly important to have access to more capital when we need it (Kavitha 2007). For most organizations, current assets exceed current liabilities and therefore working capital represents the liquid reserves for meeting current obligations. Creditors prefer high levels of working capital since they are concerned with receiving payment, whereas Management prefers low levels of it because that earns an extremely low rate of return (exinfn.com/board). The theoretical review, which is the basis for this chapter is outlined as follows:

2.1 Working Capital Concept

2.2 Cash Management

2.3 Accounts Receivable

2.4 Stock Management

2.5 Trade Creditors Management

2.6 Chapter Summary

2.1 WORKING CAPITAL CONCEPT

According to Chadwick and Kirkby (1995), working capital represents the difference between current assets and current liabilities. There are two major concepts of working capital - Networking capital and gross working capital. When accountants use the term *working capital*, they mean networking capital, which is the monetary difference between current assets and current liabilities. This is one measure of the extent to which the firm is protected from liquidity problems. Gross working capital, is the firm's investment in receivable and inventory.

2.1.1 Level of Working Capital Policy

According to Kirkby (1995), it is difficult to lay down any hard and fast rules about the amount of working capital required. The working capital requirement varies from industry to industry, sector to sector and from company to company. According to Watson and Head (2007), there are three levels of working capital policies. These are aggressive, conservative, and moderate.

An aggressive policy on the level of investment in working capital means that a company will choose to operate with lower levels of stock, debtors, and cash, for a given level of activity or sales. Aggressive policy increases profitability, since less cash is tied up in current assets, but also increases risk since the possibility of cash shortages or running out of stock (stock out) is increased.

A conservative and more flexible working capital policy for a given level of turnover is associated with maintaining a larger cash balance, perhaps even investing in

short-term securities, offering more generous credit terms to customers and holding higher levels of stock. Such a policy leads to a lower risk of financial or stock problems, but at the expense of reduced profitability. A moderate policy would tread a middle path between the aggressive and conservative approach.

The three levels of working capital were also emphasized by both Van Horne and Wachowicz Jr. (2005) and Besley et al (1999), who represented aggressive by 'Policy C', conservative and relaxed by 'Policy A', whilst 'Policy B' was used for moderate (Watson and Head, 2007).

Concept of zero working capital: According to Brigham and Ehrhardt (2002), proponents of the zero working capital concept claim that a movement towards this goal not only generates cash but also speeds up production and helps businesses make more timely deliveries and operate more efficiently. The concept has its own definition of working capital: $\text{Inventories} + \text{Receivables} - \text{Payables} = \text{working capital}$.

The rationale here is that: (1) inventories and receivables are the keys to making sales, but (2) inventories can be financed by suppliers through accounts payable. Working capital consists of four main components. Zero Working Capital requires major changes in how an organization functions and way to implement it is to have a demand-based organization.

Demand-based organizations do everything only as they are demanded: Customer orders, supplies receipt, products manufacture, and other functions are done only as needed. There are no inventories because supplies are made immediately on demand. The form of this organization is that little, if any, working capital is needed to

run the business. As more and more businesses find faster ways of servicing customers, the concept of Zero Working Capital will become more fashionable (exinfin.com)

2.1.2 WORKING CAPITAL CYCLE

Working Capital Cycle refers to cash flows into, around, and out of a business. It is the life blood of a business and every manager's primary task is to help keep it flowing, and to use it to generate profits. If a business is operating profitably, then it should in theory, generate cash surpluses otherwise the business will eventually run out of cash and expire. The faster a business expands the more cash it would need as working capital and for investment. (Planware.com). Good management of working capital will generate cash, help improve profits and reduce risks. The cost of providing credit to customers and holding stocks can represent a substantial proportion of a firm's total profits (Kavitha, 2007).

2.1.3 Theories of working capital management

According to Pandey (2004), working capital management means running a company effectively with as little money tied in the current accounts as possible. This involves an important series of cost/benefit trade off. The trade off arises because it is easier to run a business with more working capital than with less, but also more expensive.

According to Watson and Head (2007,) there are two main objectives, for working capital management. These are to increase the profitability of a company, and

to ensure that it has sufficient liquidity to meet short-term obligations as they fall due so as to continue in business.

KPMG (2006), has it that the aim of working capital management is to minimise the cash conversion cycle and therefore the amount of capital tied up in net current assets. The time between outflows and inflows of cash in the value creation process is minimised, whereas process cost and quality are simultaneously optimized. The common idea behind the various theories is to ensure liquidity and profitability.

2.1.4 Working capital management and inflation

According to Watson and Head (2007), the nominal value of the investment in working capital needs to be inflated each year in order to maintain its value in real terms. If the inflation rate applicable to working capital is known we can include in the investment appraisal an annual capital investment equal to the incremental annual increase in the nominal value of working capital.

2.2.1 Cash management

Cash management is basically concerned with optimizing the amount of cash available, maximizing the interest earned on funds not required immediately, and reducing losses caused by delays in the transmission of funds, Watson and Head (2007).

As stated by Lasher (2000), a good cash management can improve financial results and make a weak business strong and vice versa. Consequently, Lasher suggested the use of four facets of cash management, which include cash planning, managing the cash flow, optimum cash level and investing surplus cash, Pandey (2005).

2.2.2 The reasons for holding cash.

Cash normally would not be needed if it were not for market imperfections and resulting transaction costs of urgently needing cash at short notice when there is not enough cash (Von Eije and Westerman, 2001). The reasons for holding cash are divided into four main categories: transactions, precautionary, speculative, and compensating motives (Van Horne and Wachowicz, 2005 and Ross et al, 1996)

Transactions: The transaction motive refers to the cash held in the form of non interest bearing currency and checking deposits for paying bills, making changes for customers, paying salaries and other day-to-day operating activities. The transactions demand comes from the normal cash collection and disbursement activities which are not always perfectly synchronized (Ross, et al, 1996). Transaction demand is related to the volume of transactions and thus the more payment the company expects to make, the greater its transaction demand for cash.

Precautionary: The major causes of uncertainty about cash availability for paying bills are uncertainties about the amount, timing of sales and collections from accounts receivable. The firm therefore holds additional cash in excess of its transaction

needs for such purposes. Precautionary balances are usually held in highly liquid marketable securities, which provide interest income, Ross et al (1996) and Pandey (2005).

Speculative: The speculative cash balances are held to take advantage of yet unknown temporary investment opportunities like acquisitions or a sudden decline in prices of raw materials. Such cash may be held in reserve waiting for the opportunistic condition and as with precautionary demand, could be invested in income-earning securities.

Compensating balance: "Compensating balance is demand deposits maintained by a firm to compensate a bank for services provided, credit lines or loans", Horne & Wachowicz Jnr, (2005). Banks may require a minimum compensating balance to be kept in the firm's bank account at commercial banks to compensate for banking services rendered to the firm.

The above reasons for holding cash, therefore makes it imperative for managers to be cautious in their decisions. Since cash decisions involves cost (i.e. that is profitability and liquidity risk trade-off), Van Horne and Wachowicz Jnr, (2005)

2.2.3 MANAGING CASH INFLOW

Cash flow planning is the first thing that should be done prior to starting an investment exercise, because only then will one be in a position to know how finances would look like, and what could be invested without causing a strain on oneself. It enables one to understand if a particular investment matches with flow requirement

(www.bajajcapital.com, 2008). According to Watson and Head (2007) Cash flows must be managed efficiently and that debts should be collected in line with agreed credit terms and cash quickly banked. Prompt banking will either reduce the interest charged on an outstanding overdraft or increase the interest earned on cash deposits and also minimizes cash fraud.

Optimum cash level

According to Pandey, (2005), the test of liquidity is the availability of cash to meet the company's obligation when they become due. The optimum cash balance can be determined under two different circumstances: (1) When the cash flows are predictable (optimum cash Balance under certainty) and; (2) if they are not predictable (optimum cash Balance under uncertainty).

Optimum cash balance under certainty - Baumol model

The Baumol cash management model provides a formal approach for determining the firm's optimum cash balance under certainty. It considers cash management similar to an inventory management. As such, the company attempts to minimise the total cost of holding cash (inventory of cash) and the cost of converting marketable securities into cash. The Baumol's model makes the following assumptions: (a) the firm is able to forecast its cash needs with certainty; (b) the firm's cash payments occur uniformly over a period of time; (c) the opportunity cost of holding cash is known and it does not change over time; and (d) The firm will incur the same transaction cost whenever it converts security into cash.

Optimum Cash Balance under Uncertainty -The Miller Orr Model

The limitation of the Baumol's model is that it does not allow the cash flow to fluctuate. Firms in practice do not use their cash balance uniformly, nor are they able to predict daily cash inflow and out flows. The Miller Orr (MO) model overcomes this short coming and allows for daily cash flow variations.

Investing surplus cash in marketable securities

When a company has cash that it does not require for immediate use, it would invest in very safe securities to ensure that there is no risk of capital loss. Since these funds are required to support a company's continuing working capital needs, the following are some short term investment opportunities available to a company. These are Treasury Bills, Negotiable certificate of Deposit, Commercial paper, Repurchase Agreement and Bankers Acceptance.

2.2.4 TYPES OF SHORT TERM INVESTMENTS

TREASURY BILL: Treasury bill (T-bill) is one asset, whose rate of return is almost certain. Ignoring inflation and the chance of a revolution in a country, it will pay with certainty the stated yield. Also, because they are a short term asset, changes in interest rate do not significantly affect the price. Therefore, it is common to refer to the yield on T-bills as the riskless interest rate. Treasury bills have maturities of less than one year, Pandey (2005) and Horne and Wachowicz Jnr. (2005).

Negotiable certificate of deposit: These are debt instruments issued by banks at a stated interest. Most certificates of deposits (CDs) cannot be traded, and incur penalties

for early withdrawal. These are usually bought by institutional investors, who are interested in low-risk investments. Negotiable CDs are generally purchased by institutional investors, rather than individuals, and are actively traded in the secondary market (investor .com).

Commercial paper: Large, well-established corporations have found that borrowing directly from investors via commercial papers is cheaper than relying solely on bank loans. The lenders are generally investors with temporary idle cash. Commercial paper is unsecured notes of corporations, usually issued at a discount. These loans are not backed by any specific assets, making them unsecured. Generally, a cash surplus company will deposit (lend) its funds to a sister or associate company or with an outside company with high credit standing. The risk of default is high, but the returns are quite attractive, Pandey (2005) and Horne and Wachowicz Jnr. (2005).

Repurchase Agreement: (Van Horne and Wachowicz Jnr, 2007), The repurchase agreement, or repos is the sale of short-term securities by the dealer to the investor, whereby the dealer agrees to repurchase the securities at an agreed higher price at a specified future date. The investor thereby receives a given yield, while holding securities. This repurchase agreement gives the investor a great deal of flexibility with respect to maturity. Rates on repurchase agreements are related to rates on treasury bills and loans to government security dealers by commercial banks.

Bankers Acceptance: Bankers acceptance (BA) are time drafts (short-term promissory notes) drawn on a bank by a firm to help finance foreign and domestic trade.

By "accepting the draft, a bank promises to pay the holder of the draft a stated amount of money at maturity. The bank ends up substituting its own credit for that of the borrower. Therefore, the credit worthiness of banker's acceptances is primarily judged relative to the bank accepting the draft. However, the drawer of the draft remains secondarily liable to the holder in case the bank defaults. Accepted drafts are negotiable instruments that generally have maturities of less than six months and are of very high quality. They are traded in an over the counter market. The rates on banker's acceptances tend to be slightly higher than rates on treasury bills of like maturity and both are sold at a discount basis, Pandey (2005) and Van Horne and Wachowicz Jnr. (2005)

2.2.5 Cash Cycle

This is defined as the average age of inventory plus the average age of account receivables, less average age of account payable. The cash cycle shows the average duration of a company's cash invested in inventory and account receivable, both of which do not yield interest. The implication here is that the firm/company stands to gain by keeping the cycle as short as possible. This is the main set of relationship that is at the heart of working capital management. The longer the cash conversion cycle, the greater the amount of investment required in working capital, Pandey (2005) and Watson and Head (2007). $CCC = \text{stock days} + \text{Debtor days} - \text{creditor}$

2.2.6 STRATEGIES FOR CASH MANAGEMENT

More businesses fail for lack of cash than for want of profit, (planware.org. 2007).

CASH FORECASTING AND BUDGET: Cash budget is the most significant device to plan for and control cash receipts and payment. A cash budget is a summary statement of a firm's expected cash inflow and outflow over a projected time period. A cash budget may be prepared either daily, weekly, monthly, quarterly, half-yearly, or annually. Cash forecasts are needed to prepare cash budgets. Cash forecasting may be done on short or long term basis. Generally, forecast covering a period of one year or less are considered short term and those beyond one year are considered long term, Pandey (2005) and Van Horne and Wachowicz Jnr. (2005).

Short term forecasting: Short term forecasting is prepared to assist a company in the following areas: To determine operating cash requirement, to anticipate short term financing and to manage investment of surplus cash. If the cash requirements are not determined, it would not be possible for management to know how much cash balance is to be kept in hand, to what extent bank financing be depended upon, and whether surplus funds would be available to invest in marketable securities. Such forecast in hand makes it easier for the financial manager to negotiate short term financing arrangement with banks. The third function of the short term forecast is to help manage the investment of surplus cash in marketable securities. Carefully and skilfully designed cash forecast helps a firm to select securities with appropriate maturities and reasonable risk so as to avoid over and under investing.

Long term cash forecasting: Long term cash forecasting are prepared to give an idea of the company's financial requirement in the distant future. They are not as detailed

as short term forecast. Once a company has developed long term cash forecast, that can be used to evaluate whether short term forecast are on course to long term forecast, Pandey (2002).

2.2.7 MANAGING CASH COLLECTION AND DISBURSEMENT

Once the cash budget has been prepared and the appropriate net cash flow established, the financial manager should ensure that there does not exist a significant deviation between the projected cash flows and the actual cash flows. This is achieved through an efficient policy to properly control the collection and disbursement of cash. The two main objectives of managing the cash flows of any business should be to accelerate cash collections while delaying cash disbursement as much as possible. The virtue of the receipt and payment method is that it gives a complete picture of the items of expected cash flows, Pandey (2004).

Accelerating cash collection: A firm can conserve cash and reduce its cash balance requirement if it can speed up its cash collection. If a company's product sells mainly for cash then it has no problem. But where some of the products are sold on credit, cash collection can be accelerated by reducing the time lag between when a customer pays a bill and cheques cleared for funds to become available for the firm's use. In recent times, the carriage of cash is being discouraged and credit card, electronic mail, wire or telegraphic transfers are now available to sustain cash collection.

Strategies for controlling disbursement.

Disbursements are normally related to outflows, which comprise cash purchase, payables, advance to suppliers, wages and salaries, and other operating expenses. Capital expenditure, repayment of loan, interest and tax payments are also considered, as well as discretionary payments, that is, ordinary and preference dividends. The Company should make payments using the credit terms to the fullest extent. Whilst the trade credit enjoyed by the firm serves as a source of funds which is interest free, there is no advantage in paying earlier than agreed. Even though delaying payment results in the maximum availability of funds, delays in making payments to creditors may endanger the firm's credit standing, since it may not be possible obtaining trade creditor from the suppliers to whom he has defaulted. This may cause the supplier to build on implicit cost in the prices of goods supplied and may also reduce quantity.

Zero Balance Account (ZBA): The zero balance account is a special disbursement account that has a balance equal to Zero when there is no disbursement. A company establishes several ZBA's in a concentration bank and funds them from a master accounts. As cheques are presented to the Zero balance account for payment, funds are automatically transferred from the master account. This is done to reduce idle cash

2.3.1 ACCOUNTS RECEIVABLE

Accounts receivable arises when a firm sells its products or services on credit and therefore does not receive cash immediately. A firm grants trade credits to protect its

sales from competition and also to attract potential customers to buy its products at favourable terms. Trade credit creates debt, which the firm is expected to collect in the near future, Pandey (2005). The indebtedness to the firm arising from trade credit constitutes accounts receivables. With the exception of the retail trade, where immediate cash settlement predominates, most commercial sales are made on credit, McInaney (1991).

2.3.2 Elements of account receivable management

There are three factors that influence the profitability of a firm or company through receivable management. These three broad issues are: Credit policy, which determines how financially strong the customer must be to enjoy credit sales. Gitman (2003) puts it this way: Credits selection or policy is the firm's minimum requirement for extending credit to a customer. The next is Terms of sales policy, which relates to what due dates and discounts should be offered to credit customers. Collection policy, relates to how customers whose bills have not been paid should be handled. These three issues should be interacted well into the policy to make them work effectively.

Goals of credit policy: A firm may follow a lenient or stringent credit policy. The firm adopting the lenient credit policy tends to sell on credit to customers on very liberal terms and standards. On the contrary, the firm following a stringent credit policy sells on credit to customers on a highly selective basis. That is, it sells to customers who have proven credit worthiness and are financially strong. Firms use credit policies as a marketing tool for expanding sales and thus in times of a decline in market, it may be made to maintain market share. Credit policy helps to retain older customers and create

new customers by winning them away from competitors. In a growing market, it is used to increase the firm's market share.

Credit standards and analysis: Credit standards are the criteria that a firm follows in selecting customers for the purpose of credit extension. The firm may have tight credit standards, such as, selling mostly on cash basis and extending credit only to the most reliable and financially strong customers. Such standards will eliminate bad debts and less cost of credit administration. Such policy may however, not be able to expand sales and the profit sacrificed on increased sales may be more than the cost saved by the firm.

Credit analysis: Credit standards influence the quality of the firm's customers (receivables). There are two aspects of the quality of customers: The time taken by customers to repay credit obligation and the default rate. The Average Collection Period (ACP) determines the speed of payment by customers and measures the number of days for which credit sales remain outstanding. Default rate can be measured in terms of bad debt losses ratio, i.e. the proportion of uncollected receivable. Bad debt losses ratio indicates default risk. Default risk is the likelihood that a customer will fail to repay the credit obligation on the basis of past experiences and practice.

Credit terms: Credit terms specify the length of time over which credit is extended to a customer and the discount, if any, for early payment. Credit terms vary from firm to firm. An example of credit terms offered is cash before next delivery.

2.3.3 Collection policy and procedures

Collection policy: According to Weston et al (1996) credit collection policy refers to the procedures that a firm adopt to collect its credit, including determining when and how notification of the credit will be conveyed to the buyer. With the prevailing high technology in global business, more firms are using electronic technologies to send invoices to customers. A collection policy is needed to guide the credit department or receivable department on how to pursue collection.

Procedures: When a firm extends credit sale to its customers, then it must institute collection procedures that will be used to collect receivable which are in arrears of payment. Some procedures that a collection department could possibly adopt in pursuing collection from overdue accounts are: Telephoning the customer to remind, sending a letter of reminder with a mild tone, cautioning the customer that if the overdue accounts are not settled, they may be turned over to a Collection Agency.

Monitoring receivables (evaluation): For a firm to continuously monitor and control its receivable to ensure the success of the collection department, it must put in place a mechanism to effectively and efficiently manage receivables/collections to enhance cash inflow. There are three traditional methods of evaluating the management of receivables. These are: average collection period, age analysis of debt and Cost of maintaining receivable.

Average Collection Period (ACP): The average collection period of a firm's receivables are calculated to determine how long it takes to collect receivables as against the credit period extended to customers. It is calculated to ascertain whether the firm has been efficient in its receivable collection or deficient.

There are two limitations to this method: It provides an average picture of collection experience and is based on aggregate data. For control purposes, one needs specific information about the age of outstanding receivables. It is susceptible to sales variations and the period over which sales and receivables have been aggregated. Therefore, the average period cannot provide very meaningful information about the quality of outstanding receivables.

Age Analysis of Debt: The age analysis of debts removes one of the limitations of the average collection period. It breaks down the individual receivables according to the length of times for which they have been outstanding. The age analysis helps to distinguish between receivable customers who honour their obligation on schedule and slow paying debtors. The age analysis also suffers from the problem of aggregation, and does not relate receivable to sales for the same period.

Cost of maintaining receivables: The cost of maintaining receivables are: Cash Discount, collection expenses and bad debts. Cash Discount which is a percentage of sales granted as an incentive to encourage early payment; Collection Expenses, which is administration cost of keeping record on credit sales and payments, such as telephone charges and postages. Bad Debt which are accounts that are uncollectible and written off as a charge against receivables and profits McInley,(1991)

2.4.1 WHAT IS INVENTORY?

Inventory is a quantity or store of goods that is held for some purpose or use. Inventory may be kept "in-house," meaning on the premises or nearby for immediate use

or it may be held at a distant warehouse or distribution centre for future use. With the exception of firms utilizing just-in-time methods, more often than not, the term "inventory" implies a stored quantity of goods that exceeds what is needed for the firm to function at the current time ([reference.com](#)) Inventories are any quantities of items or economic resources being held in storage for some future use ([econ.survey.ac.uk/people](#)).

2.4.2 INVENTORY MANAGEMENT

Like any other assets, the holding of inventories, constitute an investment of funds. It is therefore imperative for a finance manager to efficiently and effectively manage inventories in order to avoid unnecessary investments, Pandey (2005). A firm neglecting the management of inventories will be jeopardizing its long-run profitability and may ultimately fail. Currently, many firms use computerized inventory control models to match stock on hand with forecasted sales level and coordinate closely with suppliers to reduce average inventory levels. Reducing or minimizing inventory amounts has its own consequences. If sales surge or rise, inventories may not be sufficient to meet demand, causing the company to lose sales to its competitors, who may be carrying higher inventories. However, if sales fall, low inventory firms will be better positioned than firms that are overstocked. Firms generally find it necessary to hold some inventory because it is not known with certainty when customers will arrive, when orders will be delayed or when production problems will arise.

2.4.3 TYPES/NATURE OF INVENTORIES

The types of inventories that exist in a manufacturing company are raw materials, work in progress and finished goods.

Raw materials: Raw materials are inventories purchased from suppliers to be transformed into finished products for sale. These are those units which have been purchased and stored for future production.

Work in progress: This refers to inventory units that are at various stages of production, some may be work at the beginning stages of production while others may be near completion.

Finished goods: Finished goods inventories are those products that are completely manufactured and are ready for sale. Stock of raw material and work-in-progress facilitate production, while stock of finished goods is required for smooth marketing operations.

Components: There is however a fourth type of inventory called components, which is not related to the production process of a manufacturing firm or company. These are supplies like spare parts maintained by firms, which include office plant, cleaning materials like soap, brooms, oil, fuel, light bulbs, etc. which are necessary for the production process.

2.4.4 TECHNIQUES FOR MANAGING INVENTORY

There are numerous techniques available for effectively managing a firm's inventory. Here, we consider some commonly used ones: Economic order quantity (EOQ) model: The management of inventories efficiently brings to mind the questions: How much should be ordered and also when? Inventories obviously are necessary, but the firm's profitability will suffer if it has too much or too little of it. To determine the

optimal inventory level, one approach that is commonly used is the economic ordering quantity (EOQ) model, Pandey (2003), Watson and Head, (2007), and Gitman (2003)

The economic order quantity (EOQ) is an important concept in the purchase of raw materials and in the storage of finished goods and in transit inventories, Van Horne and Wachowicz Jnr. (2005). The economic order quantity of inventory will occur at a point where the total cost is minimum, Gitman, (2003).

SAFETY STOCK: According to Gitman, (2003) if the estimates of lead time and usage are correct, then the order will arrive exactly as the inventory level reaches zero. However, lead time and usage rates are not precise, so most firms hold safety stock (extra inventory) to prevent stock-outs of import and items.

JUST IN TIME (JIT): Another inventory control technique which has been developed in recent years in certain industries is the Just-In-Time (JIT) inventory control. As the name implies, the idea is to get inventories acquired for production at the exact times that they are most needed. This requires efficient purchasing, very reliable suppliers, and an efficient inventory handling system. One thing that has made this possible is the advent of instant information through sophisticated computer networks. The purchaser requires guarantees on both quality and reliability of delivery from the supplier in order to avoid disruptions to production, Watson and Head (2007), Gitman, (2003), and Van-Horne and Wachowicz Jnr. (2005).

2.5.1 TRADE CREDITORS (SUPPLIERS) PRACTICE

Trade creditors or accounts payable is money owed for goods and services purchased on credit by the firm. Trade credit is a very important source of 'free' finance, which firms should take very seriously, McLaney (1991). Creditors are a vital part of effective cash management and should be managed carefully to enhance the cash position (excelplan.com)

2.5.2 Accounts Payable Management

Accounts payable are the major source of unsecured short-term financing for business firms. They result from transactions in which merchandise is purchased but no formal note is signed to show the purchasers liability to the seller. This means that accounts should be paid on the last day possible, given the suppliers stated credit terms.

Stretching Accounts Payable: When a firm postpones its payment period to suppliers beyond the accounts payable period, or net credit period, it is called leaning on the trade, Pandey (2003). The accounts payable function extends beyond paying bills and strategic management of accounts payable has a major impact on the company's cash flow. Also, how much money a company spends, or does not spend, on late payment fees and interest charges significantly influences company cash flow (priewaterhousecoopers.com).

Rafuse (1996) argues that an attempt to improve working capital by delaying payment to creditors is counter-productive to individuals and to the economy as whole. He states also in his article that delaying payment to creditors is an inefficient and ultimately damaging practice both to its practitioners and the economy as a whole.

Chapter Summary

This Chapter defines key concepts relevant to the study. Some relevant prior literature was reviewed. The literature centered on the various viewpoints of the various authors on the main components of working capital management relevant to the study.

METHODOLOGY AND PROFILE OF COMPANY

3.0 INTRODUCTION

The preceding chapters provided the introductory and contextual matter of the study and reviewed relevant prior literature. This chapter describes the method and techniques that were adopted to collect that data for the analysis contained in chapter four. The research design and methodology of the study have been described under the following sub-headings:

- 3.1 Research design for the study
- 3.2 Study population for the study
- 3.3 Sampling frame for the study
- 3.4 Sampling method for the study
- 3.5 Research instrument used for the study
- 3.6 Data collection
- 3.7 Primary data source
- 3.8 Secondary data source
- 3.9 Data presentation and analysis
- 3.10 Scope
- 3.11 Pre-testing
- 3.12 Ethical consideration
- 3.13 Organizational profile

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3.1 RESEARCH DESIGN

The research design for the topic understudy was descriptive and analytical.

Case research studies can be exploratory, descriptive, hypothesis testing or explanatory, in nature (Sekaran, 1992). This design was used to collect information which is not available or evident from the financial Statement but which would shed more light on the information stated therein.

3.1.1 SAMPLING METHOD

The analytical design on the other hand would help me dwell into the various components of working capital management so as to draw inference between what pertains in the Organisation and literature. Subsequently the financial statement which is quantitative would be analysed.

3.2 STUDY POPULATION

The research seeks to investigate working capital management in the manufacturing sector. The research population constitutes all manufacturing companies in Ghana, specifically those listed on the Ghana Stock Exchange.

The companies listed on the Ghana Stock Exchange were used to form the study population In that they have been in operation for over five (5) years and have passed a criterion test before companies are enlisted. Besides, listed companies are public companies and are expected not to shelve information.

3.3 SAMPLING FRAME

The sampling frame would constitute manufacturing companies listed on the Ghana Stock Exchange which are engaged in Agro-processing. The reason for this is that the researcher adopted the non probability sampling method under which the purposive sampling technique was used to select cocoa processing company for the case study

3.4 SAMPLING METHOD

The sampling technique which will be used will be non probability sampling scheme under which a purposive sampling method would be used in selecting the case study. The sample was carefully chosen to encompass all the elements involved on the topic working capital management.

3.5 RESEARCH INSTRUMENT EMPLOYED

The instrument used for collecting data was a questionnaire based on the objectives of the study above. Both closed ended and opened ended items were used. With the research purposive in mind, the research questionnaire was designed to elicit response on the background information on respondent company as well as vital issues bothering on the research question.

3.6 DATA COLLECTION AND ANALYSIS

Data collection was based on working capital management practice of the selected case study. The data required for this research is both quantitative and qualitative and was obtained on the organization chosen and this includes both primary and secondary data.

3.7 PRIMARY DATA SOURCE

The primary data was obtained through the use of a questionnaire which was served on the respondent. The questionnaire consisted of open and close ended questions both quantitative and qualitative questions.

3.8 SECONDARY DATA SOURCE

These were data collected from various sources which included published financial statements of the study which was accessed through the purchase of the Ghana Stock Exchange FACT BOOK for 2007 which contains all financial statements of listed Companies for the past five years (2003-2007.)

3.9 DATA PRESENTATION AND ANALYSIS

The data collected was analysed primarily to establish whether any relationship exist between literature underlying working capital management and that of the company understudy. The data collected was analysed under the various components of working capital management which were cash management, inventory management, receivable and payable management. The questionnaire was analysed and financial ratios, bar charts, tables were calculated from the financial statements. Comparison and deductive methods of analysis was also employed to examine their relationship and inferences drawn.

3.10 ETHICAL CONSIDERATIONS

3.10 SCOPE

The study focused on the working capital management practices of the company. This covered all the component areas of working capital management which were cash management, inventory management, receivable or debtor's management, trade creditors and other payables. The study also made use of the financial statements of the company covering a five year period (2003-2007).

3.11 PRE-TESTING

Questionnaires were pre-tested at Fan milk Ghana Limited and super paper products company limited (SPPC). These companies were used for the pre-testing

because they are engaged in manufacturing and besides they are also listed companies on the Ghana Stock Exchange.

They are a part of the study population however they are not part of the company investigated. The pre-testing was done to check the acceptability of questions to respondents and the willingness of respondents to answer questions. After the pre-testing, the questionnaire was served on cocoa processing company limited subsequently.

3.12 ETHICAL CONSIDERATIONS

The study received ethical approval from the School of Business, KNUST, and Kumasi. A letter of introduction was subsequently issued to the Cocoa Processing Company Limited which also consented that their company be used for the study. The company was assured that the information gathered, would be treated as confidential and was to be used for academic purposes only.

Chapter Three Summary

This Chapter explained the procedures that were employed to collect data for the analysis of the study. The Study adopted both descriptive and analytical Techniques in the data collection and analysis. The Sampling Techniques used was the non probability sampling scheme under which a purposive sampling method was used in selecting the case study. The study used both open and close ended questionnaire to collect primary data which were both quantitative and qualitative in nature.

ORGANISATION PROFILE

COCOA PROCESSING COMPANY (CPC)

The name of the organization under study is cocoa processing company limited. It was incorporated November 27, 1981. It is located on Plot No. IND/A/10/1 Cocoa processing Road, Heavy Industrial Area Tema. Later in 2002, July 5, the company was converted into a public company. The company got listed unto the Ghana stock Exchange February 14, 2003. The company engages in the processing of raw cocoa beans into Cocoa butter, Cocoa liquor, Cocoa cake, Cocoa powder and confectionary products. Cocoa processing company currently has 557 staff (employees). Out of this number, twenty seven (27) are in the finance department. It operates three factories, namely the protem factories at Tema which comprises the cocoa factory and the confectionary factory. The company has two other factories Wamco.1 and Wamco.2 all located at Takoradi. The confectionary factory manufacturers the goldentree chocolate bars, couverture, pebbles (chocolate coated peanut), VITACO and ALL TIME drinking chocolate powder, choco Delight (chocolate Spread), choke Bake and Royale natural cocoa powder. In 2002, at the Monde Selection Competition held in Paris France, CPC was adjudged the world best chocolate producers. CPC has installed new cocoa processing facility at its current site which is fully automated to facilitate production.

The CPC factories process only the choicest premium Ghana cocoa beans without any blending, probably the only factory in the world which can make such a claim. Through intensive research and product development, CPC turns out products, which meet international quality standards and also consumer satisfaction.

To this end, CPC opens its doors to entrepreneurs interested in working with it to develop a specific chocolate product for any particular market segment.

In the year 2002 CPC's position as one of the world's best chocolate producers was re-confirmed at the Monde Selection Competition held in Paris, France. At this Competition all the seven brands of chocolate and ALLTIME Drinking chocolate powder presented won gold medals on account of their distinctive quality. With the exception confectionary products, the semi- finished cocoa products are sold in the international commodity market (London, New York). CPC is currently trading in the free zone enclave and that it exports seventy percent (70%) of its semi – finish products.

As a Good Corporate Entity, Cocoa Processing Company supports educational programmes in Ghana. The Company has established a GHC 500million-Endowment Fund to assist in equipping the distressed laboratories of the Science Faculties of the universities in Ghana.

The Company is currently engaged in an expansion programme which is aimed at increasing its cocoa throughput capacity from the original 25,000 metric tonnes per annum to 65,000 metric tonnes per annum. The expansion programme is in two phases. Phase One which involved the construction of a new state-of-the-art factory with a capacity to process 30,000 metric tonnes of cocoa beans into cocoa liquor was complete and was commissioned in November 2005 by His Excellency John Agyekum Kufour, the President of the Republic of Ghana. The factory is currently in operation and producing high quality liquor. Phase Two of the programme entails the rehabilitation of the existing factory into a modern factory with an increased capacity capable of

processing 35,000 metric tonnes of cocoa beans into cocoa butter cake and powder. The rehabilitation is on-going and is expected to be completed by the end of 2007.

RESEARCH FINDINGS, ANALYSIS AND DISCUSSIONS

4.1 INTRODUCTION

This chapter is a summary of responses to the research objectives and the

CHAPTER FOUR

RESEARCH FINDINGS, ANALYSIS AND DISCUSSIONS

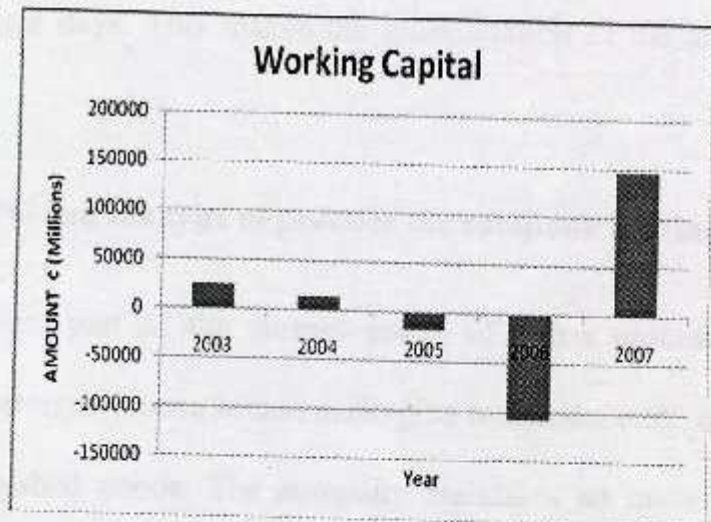
4.0 INTRODUCTION

This chapter is a summary of responses to the research instrument and the analysis of financial statements to determine various ratios, table and charts that will help establish working capital management and liquidity of cocoa processing company.

4.1 Working Capital and Working Capital Cycle

WORKING CAPITAL

YEAR	AMOUNT (Millions) ₵
2003	25,089
2004	14,520
2005	(17,636)
2006	(108,231)
2007	147,819



The above table or chart indicates the working capital trend of cocoa processing company for the five year period covering 2003-2007.

In 2003, the company had ₵25,089 million cedis as its working, ₵14,520 million in 2004 negative (-₵17,636 million) in 2005, another negative (-₵108,231 million 2006)

and a positive €147, 819 million in 2007. The company had positive reserves with which to run the company in years 2003, 2004 and 2007. However in years 2006 and 2007 the company recorded negative working capital. This implies that the company's current assets could not cover its current liabilities in those years.

WORKING CAPITAL CYCLE

YEAR	STOCK DAYS	DEBTOR DAYS	CREDITOR DAYS	WORKING CAPITAL CYCLE
2003	72	64	316	-180
2004	42	80	278	-156
2005	46	111	386	-229
2006	113	38	573	-422
2007	24	148	244	-72

The above table gives a rather distorting information about the working capital cycle because of the higher creditor days. This makes the interpretation of the above negative days very difficult.

4.2 Inventory management of CPC and the type of practice the company is using

Inventory forms a significant part of the current assets of cocoa processing company. Which is made of raw materials (cocoa beans) packaging materials, milk, milk powder, work in progress and finished goods. The company maintains an inventory system which ensures that there is control and records to ensure the completeness; accuracy, validity and timeliness over recording of inventory receipts and issue.

There is periodic reconciliation of inventory to determine whether record/book balances correspond with physical quantities, if not, the variances are investigated and remedial measures are put in place to avoid its re-occurrence

The company's inventory technique employed during procurement is buffer stock. The company does not subscribe to the known inventory techniques like, Economic Order Qualities (EOQ), ABC classification and just in time (JIT). The company adopts the weighted average method in its inventory valuation. The proportion of the company's inventory that is imported is ninety percent (90%). The procurement of Inventory by cocoa processing company is financed from business Profits and Cash reserves. The company also gets credit from its suppliers as a secondary source of finance. Although Cocoa beans are produced locally in Ghana, procurement process takes international dimension hence Cocoa Processing Company procures the Cocoa beans at world market prices. The advantage that sometimes Cocoa processing gets is an extended Credit terms from Ghana Cocoa Board because that happens to be the mother company. Freight charges are also drastically reduced since the exporter and importer are both resident companies.

4.2.1 INVENTORY TURNOVER:

One of the financial ratio determinants of working capital management to determine the health of a company is inventory Turnover.

Inventory Turnover ratio measures the speed at which company revolves its stock and this shows the relation of the stock of inventories required to support a given level of sales. The higher the inventory turnover ratio means that the company is able to recoup its investment in inventories very rapidly and that there is demand for its products.

The lower the inventory turnover ratio also means that an investor may not be able to recover its investment at a faster rate. It also implies that there is low demand for the companies' products. The inventory turnover rate varies from company to company or from industry to industry. Unfortunately there is no benchmark for this ratio and it must be interpreted cautiously.

4.2.2 INVENTORY TURNOVER

This is determined by dividing Cost of sale by inventory value at the close of the year. $\text{Cost of Sales/inventory}$.

TABLE:4.2

YEAR	RATIO
2003	4.30
2004	5.72
2005	7.31
2006	4.60
2007	8.02



The company turnover its inventory, 5 times in 2004, 2005 and 2007. This may be described as a sign of efficiency. In 2003 and 2006 however inventory was turnover 4times. This may also be described as a sign of efficiency. A low level of inventory

turnover may come about as a result of keeping high inventory or that the inventory may include obsolete inventory.

4.3.1 ACCOUNTS RECEIVABLE MANAGEMENT:

Cocoa processing Company (CPC) maintains an accounts receivable and sales system which ensures that there are controls and records to ensure the completeness, accuracy, validity and timeliness of recording of credit sales and customers payment. There is periodic reconciliation of the accounts receivable ledger to the general ledger control accounts. There are also controls in place to ensure that only credit-sales customers are approved for credit sales and that credit-limit are not exceeded.

It must be noted that credit-sales are extended to only those in the export market or those who import cocoa products from cocoa processing company. Credit is therefore not extended to customers in the Ghanaian market.

The sale to the Export market is often backed by Bank guarantees. On the other hand, the sale to the Ghanaian Market is strictly by Cash with Order (CWO). The credit-investigation approach which is used by CPC in assessing the creditworthiness of a customer or potential customer is bank and trade references. The credit-extended to customers in the export market is based on international trade practices and also as a result of company policy. The company uses collection period to monitor Book Debts and credit policies are reviewed annually. Because most export sales are backed by bank guarantees, the few export customers who don't meet their deadlines are reminded through circular letters. The company sends statements to its export customers between 7-14days after the end of the months that the credits exist until it is paid up. Cocoa

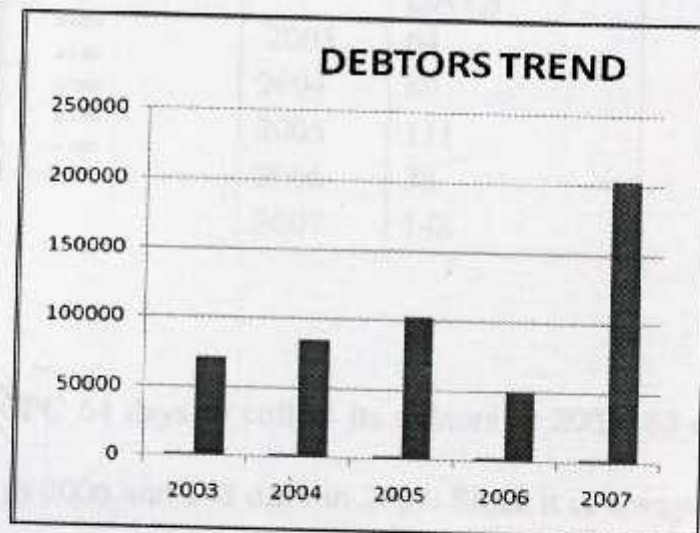
processing Company does not offer a cash discount for prompt payment. The company offers credit limits to some of its customers and that accounts for about 25% of total export credit sales. No interest charges are imposed on overdue accounts. CPC has good customer records as regards debtors and that as at now, they do not have delinquent customers over the past two years.

The company operates a credit policy to its customers in the international market. This policy is reviewed annually. It is important to make further analysis of debtors to observe the trend and also determine the debtor collection period.

TABLE 4.3

Debtors Trend for the five year period use indicated below

YEAR	AMOUNT (Million) ¢
2003	71,433
2004	85,308
2005	103,076
2006	50,414
2007	204,399



The debtor's picture for the above indicated that the debtors' figures show varying trends over the five year period. Debtors for the period are as follows: the

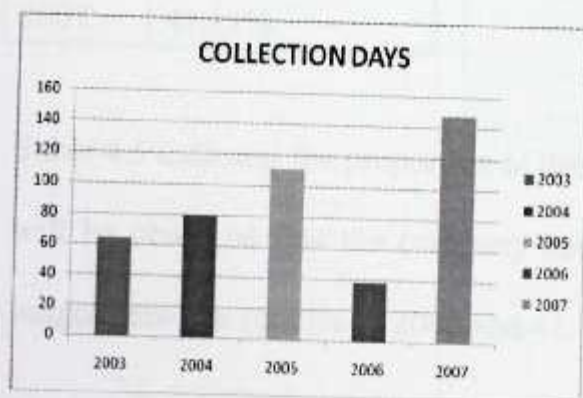
figures are recorded in millions 2003-71,433, 2004- 85308, 2005-103,076, 2006-50414 and 204,399 in 2007. The company recorded the least debtors in the five year period in 2006 with €50,414 million whilst 2007 also recorded the highest amount of Debtors which was €204,399 million. It is important to minimise the level of Debtors at all times, since it is one of the key factors that influence cash flow into a business.

Average Collection period

It is also very important to determine the Average Collection period for the five year period, which is determined by

$$\frac{\text{Debtors}}{\text{Credit sales}} \times 360 \text{ or } \frac{\text{Debtors}}{\text{Sales}} \times 360$$

TABLE:4.4



YEAR	COLLECTION DAYS
2003	64
2004	80
2005	111
2006	38
2007	148

Table 4.4 indicates that it took CPC 64 days to collect its debtors in 2003, 80 days in 2004, 111 days in 2005, 38 days in 2006 and 148 days in 2007. Since it is always better to minimise the number of collection days to enhance cash flow into the business, the above Table 1.3 indicated that 2006 recorded the least number of days in collecting debtors which was 38 days. However it must be stated that 2006 also recorded the least

percentage of Debtors as a percentage of sales. In 2007, CPC recorded the highest number of days in collecting debtors which was 148days and this also forms the highest proportion of sales of 41%.

PROPORTION OF DEBTORS OF SALES

TABLE: 4.5

YEAR	PERCENTAGE
2003	17.68%
2004	22.13%
2005	30.72%
2006	10.47%
2007	41.11%



Table 4.5 indicates the proportion of debtors of sales for the various years under study. It will be observed that the company had varying proportions of debtors to sales. This ranges between 10.47% in 2006 and 41.11% in 2007.

4.4.1 CASH MANAGEMENT

The company has internal control in place that ensures that there are controls and records to ensure the completeness, accuracy, validity and timeliness of initial recording of cash receipts and disbursement. There is also periodic reconciliation of general ledger

control accounts to bank statement. The company maintains an imprest system where is used for disbursing petty expenses. These are controls to ensure that recorded transactions receive proper treatment in the accounts and that every transaction supported by appropriate supporting documentation.

CASH BUDGET:

The company prepares a cash budget to monitor the inflow and outflow of cash receipts and disbursement. The company uses the sales and production budgets as limiting factor in the preparation of the cash budget. The cash budget is received monthly.

The purpose of the cash budget is to project ahead of time what is likely to occur in cash involvements (inflow and outflow). The cash balance at the end of each month is likely to be either a surplus or a deficit when a cash surplus likely to exist, management would decide to invest the cash in either securities or retain the cash. On the other hand, when a deficit occurs, it informs management ahead of time to make financial arrangements through overdraft or loans to supplement it cash.

Management has a policy in place that speeds up the collection of accounts receivable, whilst minimizing investment in inventory as well as minimizing bank balance but out accounts payable slowly.

Cash surpluses determined in the month by month budgets are invested in fixed interest securities (Treasury bills and Fixed Deposit) which are all short term securities. These investments are undertaken depending on the market price stability, maturity date

and finally the yield there on. The variation between estimated cash receipts and disbursement is often as a result of changes in the price of disbursement items.

4.5.1 ACCOUNTS PAYABLES

The Technique used to slow the payment of accounts payable is pay bills at the last day of the credit-terms offered to the company. The company does not have a well defined policy over accounts payables.

The table below shows the creditors trend for the five period.(2003-2007)

TABLE:4.6

YEAR	AMOUNT (Millions) c
2003	318,912
2004	241,786
2005	270,118
2006	418,360
2007	305,905

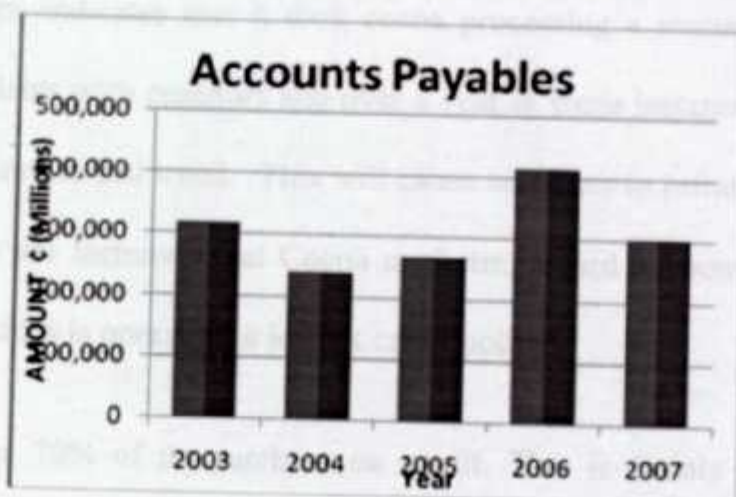


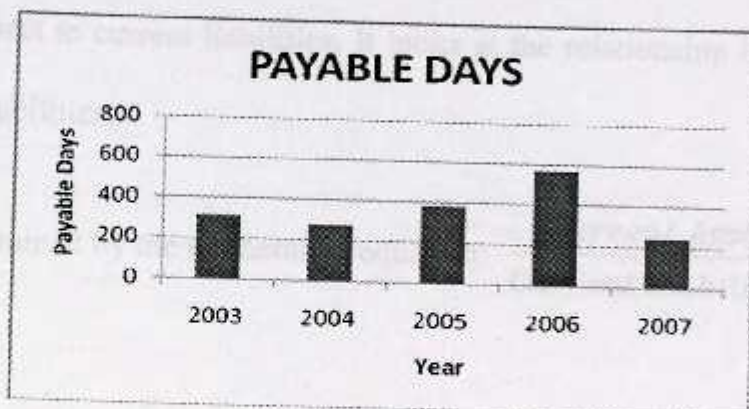
Table 4.6 above shows that CPC owes a lot debt to its creditors. The trend of these debts which ranges between 241,786million-418360million does not enhance the CPC credit standing of under any circumstance.

The creditor's payable is determined by:
$$\frac{\text{creditors} \times 360}{\text{Cost of sales}}$$

TABLE 4.7

PAYABLE DAYS

YEAR	AMOUNT (Millions) ₦
2003	318,912
2004	241,786
2005	270,118
2006	418,360
2007	305,905



The above calculations indicates that it took cocoa processing a minimum of over six months to settle its debts with creditors and over a year in some instances. The trend from the table shows a rather bad trend. This will cause suppliers to refrain from granting credit to CPC. They are fortunate that Cocoa marketing board happens to be their mother company and besides is operating a lenient credit policy.

The company procures 70% of its purchase on credit. This is mainly Cocoa beans. The company has a policy on working Capital management. The policy was set up by the financial controller. The policy on working capital is reviewed annually. The short term financial plan of the company is co-ordinated by the Chief Accountant, Financial Controller and the Managing Director.

4.6 DETERMINANTS OF WORKING CAPITAL (LIQUIDITY)

CURRENT RATIO:

This is a ratio of current asset to current liabilities. It looks at the relationship between current assets and current liabilities.

Current Ratio: this is determined by the mathematic equation: $\frac{\text{Current Asset}}{\text{Current Liabilities}}$

Table 4.8

YEAR	RATIO
2003	1.08:1
2004	1.06:1
2005	0.93:1
2006	0.74:1
2007	1.48:1



The current ration measures the short-term solvency of a company. A high current ration suggests a strong liquidity position. A lower ration also suggests poor liquidity position. The standard benchmark for assessing liquidity position of companies with respect to current ration is 2:1. This standard forms the basis of comparison; however this must not be used consciously. The company that trade mainly in cash and the product they trade in is in high demand obviously les cash in terms of current ratio than a company that trades both in cash and also on credit Cocoa Processing Company's current ration over the fine year period understudy never made it the benchmark of 2:1. The company's best performance was in 2007 which was 1.48:1 and the worst ratio was also in 2006 with the

ratio of 0.74:1. The other years recorded the following ratios 2003 1.08:1, 2004 1.06:1 and 2005 0.93:1.

ACID- TEST OR QUICK - RATIO

Another alternative of liquidity, ratio is the Acid test or Quick ratio. It is important to realize that not all current assets are readily convertible into cash. It is particularly costly to convert stocks or inventory to cash in a panic situation since it might mean liquidity your stock at low prices.

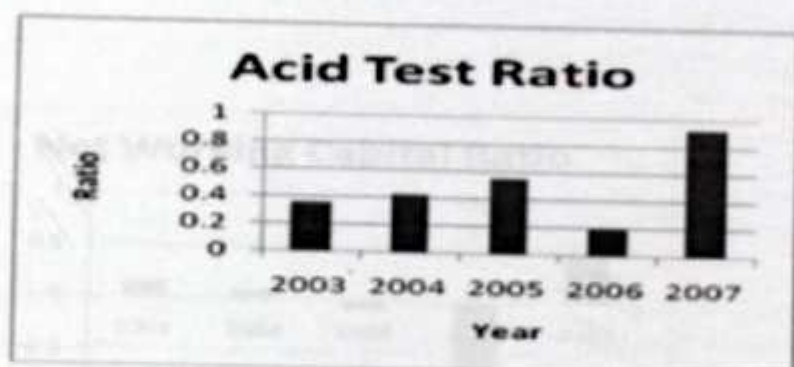
The quick ratio adjusts the current ratio by subtracting the amount of stocks from current assets. In effect, we are interested in measuring a company's ability to meet maturing obligations without liquidating stocks.

It is determined by dividing current assets less stock by current liabilities

$$\frac{\text{Current Assets} - \text{stock}}{\text{Current liabilities}}$$

TABLE:4.9

YEAR	RATIO
2003	0.36:1
2004	0.43:1
2005	0.56:1
2006	0.20:1
2007	0.94:1



Under the Quick Ratio, a rate of 1:1 is preferred. For the five year period, never attained the ratio of 1:1 is preferred. For the five years period, never attained the ration of 1:1. The next lest ratios were 2005 0.56:1, 2004 0.43:1, 2003 0.36:1 and 2006 with the least ratio of 0.20:1 A company with a fart inventory turnover, quick ration of less than 1:1 may not suggest a cash flow problem. It must be stated that cocoa processing company is in the free zone industry and therefore sells seventy percentages (70%) of its products on the international market. This leaves thirty percent (30%) of its products for the local Ghanaian Market. CPC local sales are mainly by cash.

Net Working Capital

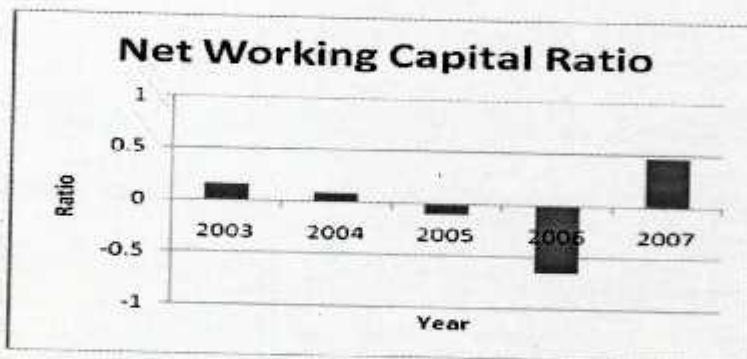
It is defined as current assets less current liabilities excluding short term borrowing. It measures the firms potential reservoir of funds that relates to net assets. The higher the ratio, the greater the ability of the company to meet its current obligation and vice versa.

It is determined as:

$$\text{Net Working Capital ratio} = \frac{\text{Net working Capital}}{\text{Net Assets}}$$

Table 4.9

YEAR	RATIO
2003	0.157
2004	0.090
2005	-0.108
2006	-0.648
2007	0.472



The net working capital ratio above of CPC which are considered as reserve funds for the five year period showed varying trends including negative working capitals in 2005 and 2006. However in 2007, it turned around the two preceding year's negative net working into a positive ratio of forty-seven percent (47.2%).

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

5.0 Introduction

Working Capital Management practice is critical to any type of business be it small or large. The practice ensures that there is liquidity to finance short term liabilities. However, this has not been the case with most companies.

In both developed and developing world countries, most companies that have filed for bankruptcy or liquidated the underlying causes are traceable to poor working capital management practice and the non existence of it. Working Capital Management practice ensures a balance between liquidity and profitability and subsequently ensure business survival.

5.1 SUMMARY OF FINDINGS

5.1.1 Working Capital and Working Capital Cycle

The Company's Working Capital performance was very impressive. The company recorded both positive and negative working capital. The positive working capitals were recorded in 2003, 2004 and 2007. The negative working capital were also recorded in 2005 and 2006. The Working Capital Cycle on the other hand showed negative performance throughout the five year period understudy. The negative working capital cycle implies that the company enjoyed and extended creditors days for purchase procured than it had for its stock days as well as debtor's days. An extended Credit –

days implies that the company enjoys an interest free source of working capital from its creditors.

5.1.2 Stock Management of CPC and the Type of Practice the Company is Using

The company has internal controls over inventory management which ensures periodic reconciliation. The classification of inventory in the above company are Raw – Cocoa Beans, Packaging materials, Milk, Work in progress and finished products. The inventory technique employed by the company is Buffer Stock. The company employs the weighted average method in the valuation of its inventory. The company imports 90% of its inventory as input for production which includes cocoa beans, packaging materials and milk. The finance of inventory is primarily from business profits and cash reserves. Besides, inventory is also financed through credit terms offered by suppliers. The company's inventory turnover rate was between 4.3 times to 8.2 times in the five year period. The least rate of 4.3times occurred in 2003 whilst the best turnover of 8.2 also occurred in 2007.

5.1.3 Evaluation of Trade Receivable Policy in Enhancing Revenue Mobilization.

With respect to Receivable management, the company operates a sales system that ensures that internal controls over sales and receivables are followed. From the analysis made in chapter four, it came out that the volume of sales represented by trade receivables was between 10 – 41% between the period 2003 – 2007. Almost all trade receivables component of sales are contained in the export sales. The local sales

component of sales are made strictly cash with order (CWO) and with the export trade, this term applies that is cash next/after delivery. In the export trade, most exports are backed by bank guarantees and immediately delivery is made CPC accounts are subsequently credited. Credit is extended to few customers, yet amount relative to sales are quite high. Because most export are backed by bank guarantees, not much is done with respect to credit investigation. However the credit investigation undertaken related more to Bank and trade Association references. Credit policies of the company are those comparable to international trade credit agreement. These policies are reviewed annually. No discounts are allowed to credit customers. The company does not charge interest or penalty on overdue accounts. The company does not have delinquent customers who may be classified as bad debts. Debtor's trend for the fine year period was erratic on indicated in table.... in chapter four.

5.1.4 Cash (Including Bank) Management and Cash Disbursement Management

It must be emphasized that there are internal controls over receipts and disbursement of cash in the company. This is done through the preparation of cash budget which is reviewed monthly. The cash budget helps determine months where cash deficits are likely to occur so that arrangements could be made for financial assistance. In periods where excess cash are observed, these cash could also be invested in treasury bills and fixed deposit for shorter terms.

It must be noted that 70% of purchases or procurement are obtained on credit. Now with respect to the traditional ratios determined under the current ratio, 2007 showed the

best of 1.48:1 as against a benchmark of 2:1. It must be noted however that since most of cocoa service sales are for cash, the ratio of 2:1 may be necessary for purposes of comparison but not important.

The quick ratio on the other hand has a benchmark of 1:1. The computations indicated that cocoa processing company performance ranges between 0.20:1 to 0.94:1. As indicated earlier, since most of CPC sales are for cash and that even in the export trade, most sales are backed by banker's guarantees. Although the ratios obtained for the quick ratios do not meet the benchmark of 1:1 for the purpose of CPC it may be considered as adequate.

The net working capital ratio of CPC which are considered as a reserve funds for the five year period showed varying trends including negative working capitals in 2005 & 2006. However in 2007, it turned around the two preceding year's negative net working capital into a positive ratio of 47.2%. A look at the Z-score of the company recorded its best ratio in 2003 of 1.673, with the least ratio also occurring in 2006 of 0.789.

5.1.5 To evaluate Trade Creditors Practice of the Company

On the part of payable ratio indicating how fast management settles its accounts with creditors, revealed a rather poor trend. The calculation indicated that it took CPC a minimum of 244 days to settle payment with creditors and even beyond a year in the cases of 2005 and 2006 with 386 and 573 days respectively.

5.2 RECOMMENDATIONS:

5.2.1 Recommendation on working capital and working capital cycle

Management to ensure that the drivers of working capital are well managed to ensure that there is enough liquidity to pay off short term liabilities. To improve the working capital cycle, the company must settle its payable within the agreed terms to change the current working capital cycle of negative days.

5.2.2 Recommendation on stock management practice

Management must keep investing at production levels, to meet market demands and avoid overstocking. However minimal levels of inventory (buffer) to meet unusual market demand.

5.2.3 Recommendation on evaluation of trade debtors management and the

Extent to which this practice has on revenue mobilisation

The current debtors practice although is helping in revenue mobilisation, it could be improved. It is recommended that discounts can be offered to customers who do bulk purchases of a certain amount set by the company. CPC must clearly define its terms of trade to its customers and collection procedures.

5.2.4 Recommendation on cash (Including bank) management cash disbursement

Although CPC has a sales policy of selling strictly by cash to the Local market, this policy has not solved their cash flow problems completely. It is therefore recommended that CPC embarks on a stringent credit policy to selected companies with high credit ratings to improve their liquidity position as well as enhanced sales. To

ensure effective working capital management practice, management to have proper cash flow forecast, which must strictly complied with barring any uncertainties.

5.2.5 Recommendation on trade creditor practice for further research

Based on the computation of creditor payable days from the financial statements in Table 4, CPC must endeavour to discharge their creditors payments in line with their trade agreements entered into with suppliers. This would create a good image for the company. Since suppliers credit is the greatest source of free funding for most companies.

Finally, considering the impressive outcome of the results of the research undertaken at Cocoa Processing Company Limited Tema, It is therefore recommended that a further research should be undertaken involving all manufacture companies listed on the Ghana Stock Exchange to be used to access the general performance of manufacturing companies in Ghana.

5.3 Conclusions

5.3.1 Conclusion drawn from working capital and working capital cycle

From the calculations of various working capital ratios to determine the liquidity or working capital, indicated that CPC could not attain the standard benchmark which is the basis of comparing for all companies. This therefore impaired their cash flows, however because CPC confectionary products are sold on the local market strictly on cash basis. Hence they are able to manage their working capital.

5.3.2 Conclusion drawn from stock management practice

CPC has an average stock turnover ratio which is good for its current performance. However this can be improved to ensure higher liquidity and profitability.

5.3.3 Conclusion drawn from evaluation of trade debtors management and the extent this practice on revenue mobilization

The computation on trade debtors indicates that CPC has managed her debtors well in that the highest debtors collection days of 148 was in 2007 and this was as a result of the higher end of year debtors figure.

5.3.4 Conclusion drawn from cash (Including bank) management cash disbursement conclusion drawn from trade creditor's suppliers practice

The computation from networking capital ratio indicates that CPC had a mixture of both negative and positive cash flows. Although CPC had a positive cash flow in 2007, the two preceding years (2005/2006) cash flow showed negative working capital. The company must endeavour to maintain a positive cash flow in the ensuing years to enhance its image.

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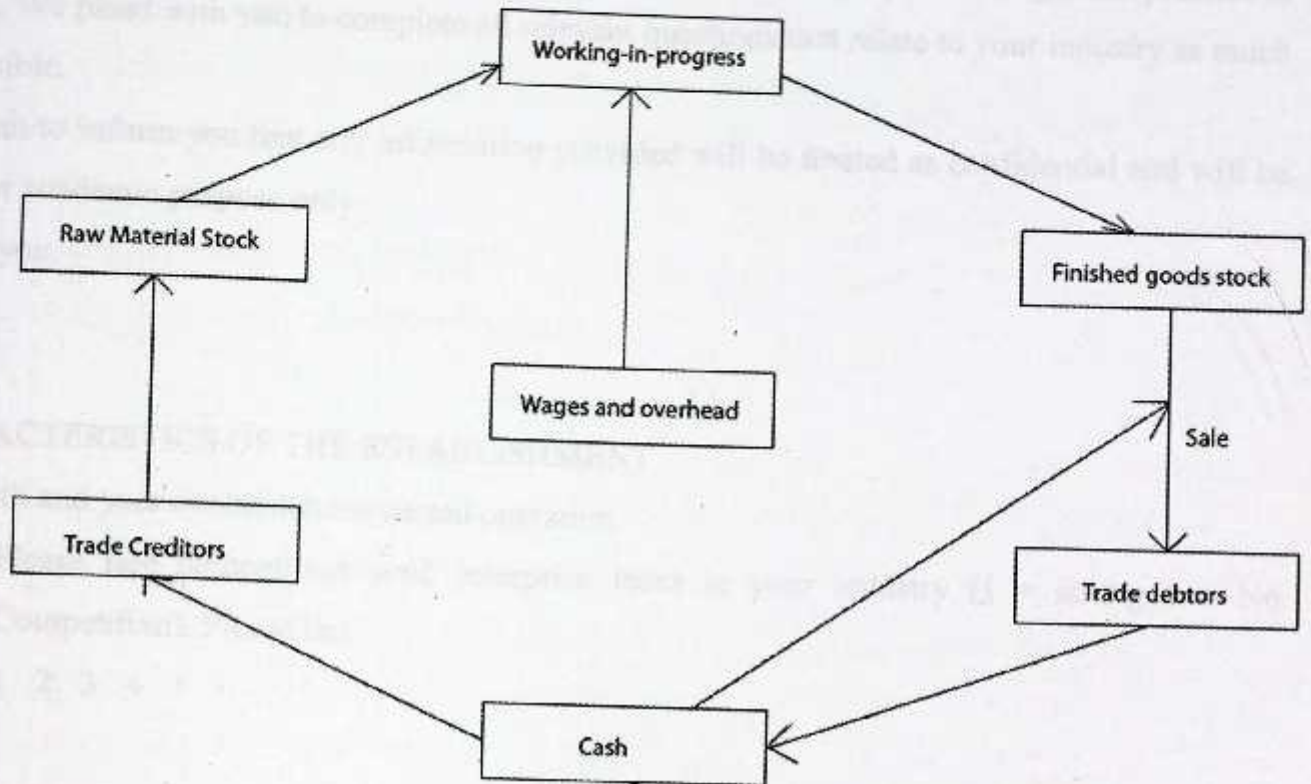
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SOURCE ADOPTED FROM CLANEY (1981)

APPENDIX:1

CONCEPTUAL FRAMEWORK



SOURCE ADOPTED FROM MCLANEY (1991)

APPENDIX 2

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

QUESTIONNAIRE ON WORKING CAPITAL MANAGEMENT PRACTICE IN GHANA

The questionnaire seeks to gather relevant information on working capital management practice in Ghana. We plead with you to complete all relevant questions that relate to your industry as much as possible.

We wish to inform you that any information provided will be treated as confidential and will be used for academic purpose only.

Thank you.

CHARACTERISTICS OF THE ESTABLISHMENT

1. Month and year establishment started operation
2. Please rate competition your enterprise faces in your industry (1 = strong 5 = No Competition). Please tick.
1 2 3 4 5
3. (a) How are the finance and accounting functions divided in your organization?
(b) Has this been clearly documented in organizational charts and position description?
1 = Yes
2 = No
3 = don't know
4. (a) Please indicate the number of personas in the finance and accounting department
(b) How many are part-time and fulltime?
Part-time.....
Full time.....
- (c) What is the educational background of finance and accounting personnel?
(Please indicate highest level of education reached by number of personnel).

5. What are the financial managers responsibility and authorities?

INVENTORY MANAGEMENT

6. Does the enterprise maintain some for of inventory system which includes the following features?

- | | | |
|---|-----|----|
| (a) Control and records to ensure the completeness, accuracy, validity and timeliness of recording of inventory receipts and issue? | Yes | No |
| (b) Periodic reconciliation of records to physical quantities and follow up of Discrepancies? | Yes | No |
| (c) Information available on the timing of receipts and issues from inventory both be product and location? | Yes | No |

7. Please indicate the classification of inventory in your firm?

8. List briefly the inventory management techniques employed by your organization.

9. What factors influence the quantity of inventory to hold in your firm?

10. Which of the following methods of valuing stock is in your organization?

- | | |
|----------------------------|-------------------|
| a. Last-in-first-out LIFO | d. Base stock |
| b. First-in-first-out FIFO | e. Simple average |
| c. Weighted Average | |

11. What proportion of your inventory is imported?

12. What proportion of your inventory is financed with funds from your business?

13. How do you finance purchase of inventory?

Primary source

secondary source

- | | |
|--|---|
| 1 From business profits, cash reserves | 1 |
| 2 Advance from customers | 2 |
| 3 Credit from suppliers | 3 |
| 4 loan from bank | 4 |
| 5 Bank overdraft | 5 |
| 6 Other (specify) | 6 |

ACCOUNTS RECEIVABLE MANAGEMENT

14. Does the enterprise maintain some form of accounts receivable and sales system which include the following?

- (a) Controls and records to ensure the complexness, accuracy, validity and timeliness of recording of credit sales and customers payment? Yes No
- (b) Periodic reconciliation of the accounts receivable ledger to the general ledger control accounts? Yes No
- (c) Information on the timing of sales to facilitate preparation of an accounts receivable aged listing? Yes No
- (d) Procedures in place to ensure proper recording and authorization of bad debt write offs? Yes No
- (e) Controls to ensure that only credit sales customers are approved for credit sales and that limits are not exceeded? Yes No

15. Is a large volume of sales represented by trade debtors?

- 1 = Very Large -81-100%
- 2 = Large -16-80%
- 3 = Fairly Large -41-60%
- 4 = Small -21-40%
- 5 = Very Small -0-20%

16. Which of the following terms of trade do you use?

- a. Cash with Order (CWO)
- b. Cash in Advance (CIA)
- c. Cash before Delivery (COD)
- d. Cash next delivery (CND)

17. What factors affect the extent and nature of credit investigation in your firm?

18. How often do you use the following in credit investigation?

(1= Very often; 5 = Not at all)

Credit information	1	2	3	4	5
Financial statement	1	2	3	4	5
Bank references	1	2	3	4	5
Trade reference	1	2	3	4	5

19. (a) outline briefly the credit policies of your firm

(b) What is the basis of your credit terms?

i. industry practice

ii. Company policy

iii. A combination of the two

20. Which of the following methods do you use to monitor Book Debts?

(a) Collection period

(b) Age schedule

(c) Collection expenses matrix

(d) Cash collection targets

21. How often do you change your credit policy?

a. monthly

b. quarterly

c. annually

d. never

e. other (please specify)

22. What is the current amount due to your from all suppliers

(Prepayment for goods and services to be delivered later?)

23. (a) are you granting more, less, or the same amount of credit to your clients as you did last year?

i. more

ii. Less

iii. The same.

(b) How many default customers have you had over the past two years?.....

(c) What has been the major cause of default on the part of delinquent customers over the past two years?

- I. bankruptcy of liquidation
- II. disappearance of customers
- III. debt too small to recover
- IV. other (specify)

24. Which collection tools are used by the company?

Tools	Most	Least
Used	Effective	Effective

Further statement

- (a) circular remainder letter
- (b) telephone calls
- (c) customer visit by sales representatives
- (d) debt collection agency
- (e) others (specify)

25. (a) do you send statements to your customers? YES / NO

(b) If yes, how soon after the end of the month are they dispatched?

1 = under 3 days; 2 = 3-7days; 3-7-14days; 4 = over days

26. (a) does your company normally offer a cash discount for prompt payment?

YES NO

(b) What percentage of your credit customers take the discount?.....

27. If you use computer facilities in your company, do they provide the following?

Regular Reports	Exceptions Reports	On Request Reports
--------------------	-----------------------	-----------------------

- a. customer history reports
- b. age analysis of debtors
- c. credit limit review reports
- d. detailed overdue account

Information

- 1 customer statement
- 2 collection reminders for mailing

28. (a) does your company establish credit limits for its customers?

Yes (all customer) B. Yes (some customers) No

(b) If yes, for some customers the for what percentage of active credit customers did
your company operate a credit limit at the end of your last financial year?

0-25%; 25%-50% 51-75%; over 75%

29. (a) does your company charges interest on overdue accounts?

YES (always) YES (often) NO

(b) Do you regard interest charges as appropriate penalty for late payment?

YES NO

CASH MANAGEMENT

30. Does the enterprise maintain some form of cash receipts and disbursement system
that include the following:

(a) Controls and records to ensure the completeness, accuracy, YES NO
validity and timeliness of initial recording of cash receipts
and disbursement?

(b) Periodic reconciliation of general ledger control accounts to YES NO
bank statement?

(c) Periodic cash account (e.g. petty cash)? YES NO

(d) Check to ensure recorded transactions receive proper treatment in the accounts? YES NO

(e) Controls to ensure that each transaction is supported by appropriate supporting documentation YES NO

(f) Identification of exchange rates in effect both at the date of purchase or sale and at the date of settlement of the related accounts payable or receivable? YES NO

31. Outline briefly step followed in preparing a cash budget in your firm?

32. (a) does your company prepare a cash budget?

1 = YES 2 = NO

(b) How often do you prepare cash budget?

i. Weekly

ii. Monthly

iii Quarterly

iv Half yearly

v. Annually

vi. Other (specify)

33. For what purpose do you normally prepare cash budgets?

34. Rank the following cash management policies

(1 = Important; 5 = Least Important) please circle the appropriate alternative

(a) Speeding collection of

Accounts Receivable

1 2 3 4 5

(b) Minimizing Investment in

Inventory

1 2 3 4 5

(c) Minimizing Bank Balance

1 2 3 4 5

(d) Slowing payment of Accounts

Payable

1 2 3 4 5

35. What of the following systems do you use to speed the collection of accounts receivable?

- (a) Locking Box
- (b) Concentration Banking
- (c) Special handling of large Remittances
- (d) Letters or telephone calls
- (e) None
- (f) Other (please specify)

36. Please list the types of marketable securities you purchase with cash balance

37. Please rank the investment criteria for marketable securities (1=Most Important; 5 = Least Important)

(a) Market price stability	1	2	3	4	5
(b) Marketability	1	2	3	4	5
(c) Maturity	1	2	3	4	5
(d) Yield	1	2	3	4	5

38. What are the factors that cause a variation between estimated cash receipts and disbursements in your firm?

ACCOUNTS PAYABLE

39. What techniques do you use to slow the payment of Accounts Payable?

40. What percentage of purchases do you obtain on credit?

GENERAL

41. Does your firm have an overall policy for the management of working capital?

YES

NO

42. Who sets the management policy of working capital?

43. How often is working capital policy reviewed?

44. Who co-ordinates development of the short term financial plan? Who participates?

Who approves?

SOURCES OF FINANCE

45. How was the start-up of the business financed?

Primary source

(Circle one)

- 0 profits from another family or friends
- 1 personal savings
- 2 loans or gifts from family or friends
- 3 Funds from a saving group
- 4 Advance from a supplier/supplier's credit
- 5 A loan from a money lender
- 6 A loan from a bank
- 7 One or more co-investors
- 8 Other (specify)

Secondary source

(Circle one)

- 0
- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8

46. Since set-up, has the business gotten additional funds for working capital from (please tick as appropriates)

- | | | |
|---|---------------------------------------|---|
| 0 | Profit from another business activity | 0 |
| 1 | personal savings | 1 |
| 2 | Loans or gifts from family or friends | 2 |
| 3 | Funds from a saving group | 3 |
| 4 | Supplier's credit | 4 |
| 5 | A loan from a money lender | 5 |
| 6 | A loan from bank | 6 |
| 7 | One or more co-investors | 7 |
| 8 | Other (specify) | 8 |

47. Suppose your firm has an important order to complete next month and needs money to purchase the necessary raw materials, from which of the following sources would it most likely be able to obtain the finance.

Most likely source

(Circle One)

Secondary source

(Circle One)

- | | | |
|---|------------------------------|---|
| 0 | Could not get any finance | 0 |
| 1 | Cash reserve of the business | 1 |
| 2 | Personal / family savings | 2 |
| 3 | Suppliers of the materials | 3 |
| 4 | Bank overdraft | 4 |
| 5 | a loan from a money lender | 5 |
| 6 | A loan from a bank | 6 |
| 7 | one or more co-investors | 7 |
| 8 | other (specify) | 8 |

48. Which of the following long term sources are used to finance working capital in your firm?

- (a) Sales of shares
- (b) Issues of Debentures
- (c) Re-investment of Earning
- (d) Term loans from Banks
- (e) Term loans from Insurance companies

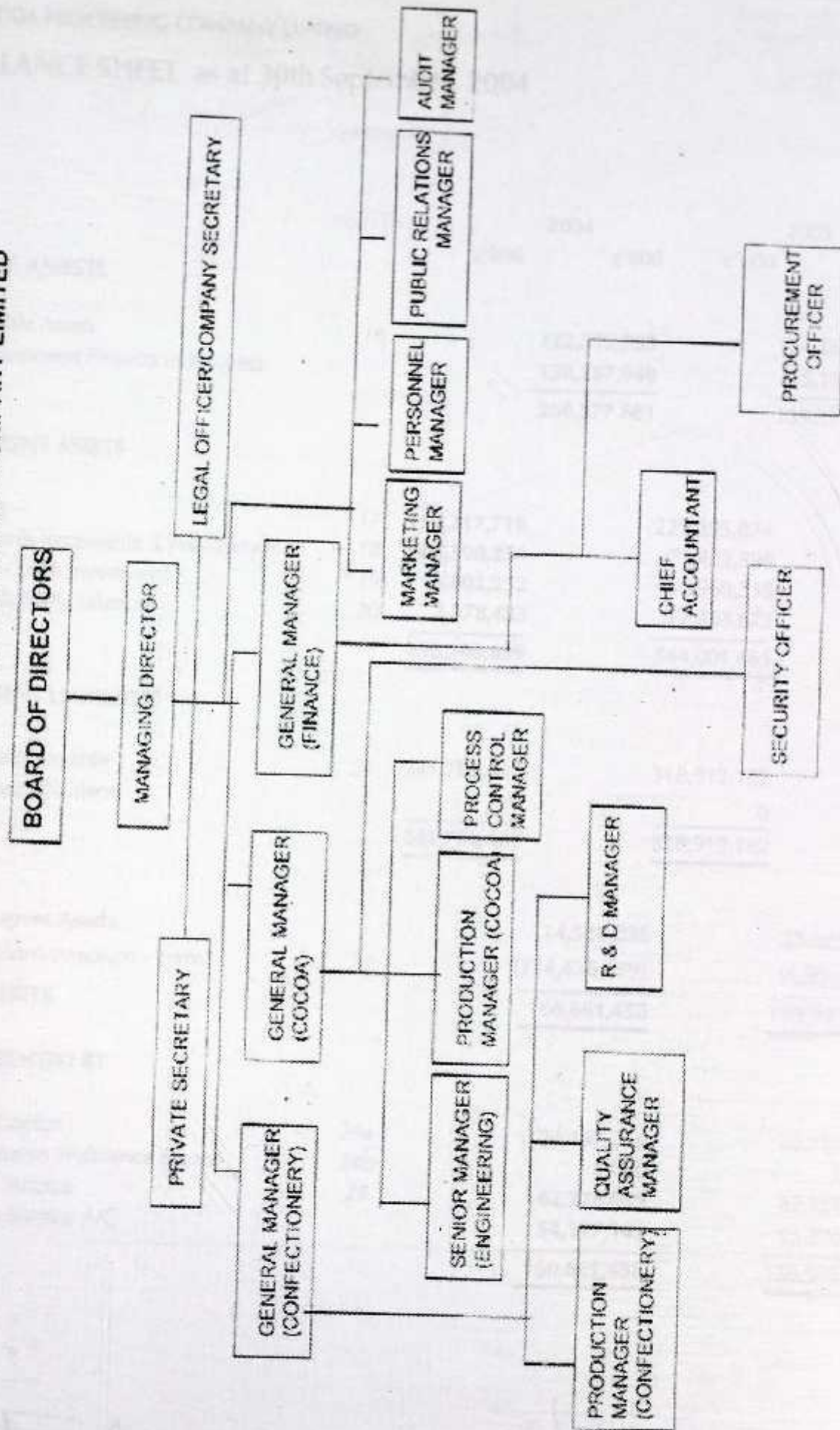
49. What type of collateral / securities are normally required for short term and / or long term finance?

50. What are the three largest problems affecting your business now? (Problems associated with working Capital Management)

- (a) Have to give too much credit to customers
- (b) Profits are too low to finance enough raw materials
- (c) can't get credit for raw materials or working capital
- (d) banks are too difficult to deal with
- (e) interest rates are too high
- (f) other(specify)

APPENDIX 3

ORGANIZATIONAL CHART FOR COCOA PROCESSING COMPANY LIMITED



BALANCE SHEET as at 30th September, 2004

	NOTES	2004	2003
		€'000	€'000
FIXED ASSETS			
Tangible Assets	16	122,319,733	124,165,915
Development Projects in Progress		138,257,948	15,185,964
		<u>260,577,681</u>	<u>139,351,879</u>
CURRENT ASSETS			
Stocks	17	150,317,710	229,295,874
Accounts Receivable & Prepayment	18	85,308,254	71,432,599
Short - Term Investment	19	16,802,252	30,969,339
Cash & Bank Balances	20	3,878,423	12,303,673
		<u>256,306,639</u>	<u>344,001,485</u>
CURRENT LIABILITIES			
Accounts Payable	21	241,786,403	318,912,182
Proposed Dividend		0	0
		<u>241,786,403</u>	<u>318,912,182</u>
Net Current Assets			
Bank Loans (Medium - Term)	22	14,520,236	25,089,303
		(114,436,459)	(4,500,000)
NET ASSETS			
		<u>160,661,458</u>	<u>159,941,182</u>
REPRESENTED BY			
Stated Capital	24a	24,167,256	24,167,256
Redeemable Preference Shares	24b	1,000	1,000
Capital Surplus	25	82,376,059	82,376,059
Income Surplus A/C		54,117,143	53,396,867
		<u>160,661,458</u>	<u>159,941,182</u>


 DIRECTOR


 DIRECTOR

COCOA PROCESSING COMPANY LIMITED

CASH FLOW STATEMENT

for the year ended 30th September, 2004

	NOTE	2004 CEDIS '000	2003 CEDIS '000
Net Cashflow From Operating Activities	1	4,863,417	42,610,007
Returns on Investment and Servicing of Finance			
Interest received		649,686	2,475,539
Interest paid		(1,013,899)	0
Taxation			
Corporation Tax paid		(2,399,671)	(3,409,062)
Capital Expenditure and Financial Investment			
Purchase of Fixed Tangible Assets		(10,430,390)	(26,539,968)
Proceeds from Disposal of Fixed Tangible Assets		197,716	0
Expenditure on Project in Progress		(123,074,984)	(3,200,700)
Equity Dividend paid		0	(6,750,247)
Cashflow Before use of Liquid Resources and Financing		(131,208,125)	5,185,569
Management of Liquid Resources			
Purchase of Treasury Bills		0	0
Redemption of Fixed Deposit and CALL Account	2	14,167,087	(6,053,527)
Financing			
Increase in medium-term Borrowings	2	109,936,459	4,500,000
Issue of shares		0	0
(DECREASE) / INCREASE IN CASH	2	<u>(7,104,579)</u>	<u>3,632,042</u>

The accompanying accounting policies and notes form an integral part of these financial statements

RECONCILIATION OF NET CASHFLOW TO MOVEMENTS IN NET DEBTS (NOTE 2)

	2004 CEDIS '000	2003 CEDIS '000
Decrease in Cash in the period	(7,104,579)	3,632,042
Cash inflow from decrease in Liquid Resources	(14,167,087)	6,053,527
Cash inflow from increase in Debt	(109,936,459)	(4,500,000)
Translation difference	144,021	0
Change in Net Debt/Debts	<u>(131,064,104)</u>	<u>5,185,569</u>
Net Funds/Debts at 01/10/2003	35,048,830	29,863,261
Net Funds/Debts at 30/09/2004	<u>(96,015,274)</u>	<u>35,048,830</u>

NOTES TO THE FINANCIAL STATEMENTS

1. Accounts Policies

The significant Accounting Policies adopted by the company and which have been used in preparing the Accounts are as follows: -

a) Basis of Accounting

The financial statements have been prepared based on the Historical Cost Convention, as modified by the revaluation of the fixed assets and complied with all applicable accounting standards.

b) Revenue Recognition

Sales are recognized when the invoiced value of Cocoa Products supplied to customers and receivable free on board (FOB) are shipped and local sales of Confectionery and Cocoa Cake/Powder, net of Value Added Tax/National Insurance Levy and similar taxes.

c) Transaction in other Currencies

Transactions denominated in currencies other than cedis are translated at the rates ruling at the dates of the transaction. Monetary assets and liabilities denominated in currencies other than the cedis are translated at the rates of exchange ruling at the year end. All translation differences are taken to profit and loss account.

d) Tangible Fixed Assets

Tangible fixed assets are recorded at cost/valuation less accumulated depreciation. Repairs and maintenance expenditures are charged against profit and loss as incurred. Major improvements and replacements that extend the useful life of an asset are capitalized.

e) Depreciation

Depreciation of fixed assets has been calculated to write off the cost on a reducing balancing basis.

The principal annual rates used are as follows: -

Building and Roadwork	2%
Staff Bungalow and Flats	2%
Plant and Machinery	10%
Motor Vehicle	25%
Laboratory Equipment	20%
Office Furniture & Equipment	20%
Bungalow Furniture & Equipment	20%

f) Research and Development

Research costs are written off as incurred. Costs involved in the development of new recipes and products are also written off in the year of expenditure, except in certain circumstances when it may be deferred to future periods where the outcome is expected to be successful.

NOTES TO THE FINANCIAL STATEMENTS

g. Interest and other Finance Costs

Interest is capitalized in respect of expansion and development projects as part of tangible fixed assets from the time it has been determined that a commercially viable process line exists up to the commencement of production. All other interest costs are charged against profit as incurred.

h. Stocks

Stocks are valued at the lower of cost and net realizable value. Cost includes, where appropriate, production and other direct overhead expenses, and is arrived at principally on the weighted average basis.

i. Accounts Receivable

These are shown at the face value less provision in respect of debts that have proved irrecoverable.

2. Turnover

Turnover represents amounts receivable excluding discounts and sales related taxes, for products supplied during the period to both domestic and external customers.

	2004 ¢'000	2003 ¢'000
Cocoa Butter	142,594,714	118,543,029
Cocoa Liquor	117,048,056	142,735,408
Cocoa Cake	41,007,691	34,190,643
Cocoa Powder	10,037,375	22,033,737
Confectionery	31,533,076	27,006,427
	<u>342,220,912</u>	<u>344,509,244</u>

3. Analysis of Turnover

Type of Product	Export Sales ¢'000	Local Sales ¢'000
Semi-Finished Products	296,174,020	14,513,816
Confectionery	261,077	31,271,999
	<u>296,435,097</u>	<u>45,785,815</u>

NOTES TO THE FINANCIAL STATEMENTS

4. Other Operating Income	2004 €'000	2003 €'000
Interest on Short-term Investment	2,092,935	2,384,735
Sale of Shell	737,376	88,101
Sales of Sacks, etc	432,741	235,562
	<u>3,263,052</u>	<u>2,708,398</u>

5. Exceptional Items

Exceptional items are those items within ordinary activities, which because of their size or nature are disclosed to give a proper understanding of the underlying results for the period. An exceptional profit of €51,156 million arose in 2004 relating to the disposal of the following Tangible Assets: -

Assets	Net Book Value €'000	Profit/ (Loss) €'000
Motor Vehicle	36,553	2,035
Plant and Machinery	90,879	49,121
		<u>51,156</u>

6. Interest payable / Receivable	2004 €'000	2003 €'000
Interest Payable on Bank Overdrafts	(1,013,898)	0
Interest Receivable on Bank Deposits (Current A/c)	57,576	2,475,539
Exchange Gains	592,110	32,618,333
	<u>(364,212)</u>	<u>35,093,872</u>

7. Added value to Beans Processed

During the year, the company achieved an added value of 28.15% over and above direct sales of raw cocoa beans.

8. Operating Costs	2004 €'000	2003 €'000
Raw Materials and Consumables	313,392,321	363,618,538
Selling and Distribution Cost	3,307,342	3,398,637
Administrative Expenses	21,937,417	18,759,854
	<u>338,637,080</u>	<u>385,777,029</u>

NOTES TO THE FINANCIAL STATEMENTS

9. Operating Profit	2004	2003
	€'000	€'000

The operating Profit is after charging/(crediting)

Staff Costs	31,853,037	27,177,122
Raw Cocoa Beans	220,017,632	335,271,831
Other Raw Materials and Packaging	25,210,957	22,929,150
Depreciation of tangible fixed assets	12,130,013	11,988,993
Profit on disposal of tangible fixed assets	(51,156)	0
Plant Repairs and Maintenance	2,713,513	2,838,693
Adverts and Promotions	668,672	456,562
Research and Development	10,340	113,573
Environmental Expenses	172,087	471,644
Audit Fees and Expenses	50,250	28,250
Director's Emoluments	266,747	304,008
Stock Exchange Expenses	1,182,948	2,851
National Reconstruction Levy	143,572	252,629

10. Software Costs

Direct development costs associated with internal use software are capitalized and amortized. This includes external direct costs of material and services and payroll costs for employee devoting time to the software projects.

Costs incurred during the preliminary project stage, as well as maintenance and training costs, are expensed as incurred.

11. Environmental & Sanitation

The company is committed to the provision of adequate resources to ensure that environmental issues are given prior attention and also maintain environmentally sound practices. plant has been provided for and capitalised and depreciated over useful life of the plant.

12. Employees

The average number of employees during the year was as follows:-

	2004	2003
Operatives	487	471
Supervisors	59	58
Senior Staff	64	66
Total	610	595

13. Taxation

The company has been accepted and given the Free Zone Manufacturing status on the 31st July 2004. Provision for the ten months up to 31st July 2004 has been made in the Accounts.

NOTES TO THE FINANCIAL STATEMENTS

TAX POSITION

Y/A	T/C	T/PD	T/O
2004	1,902,858,952	578,866,370	1,328,313,082

The standard rate for the year based on the Ghanaian tax rate for listed companies is 30% on Local sales and 8% on Export.

14. Dividend

No dividends were proposed and paid for the year ended 30th September 2004. (2003: Nil).

15. Earnings per share

The basic calculation of earnings per share is based on earnings after tax and the weighted average number of ordinary shares outstanding during the year of 861,475,000.
Earnings after Tax is ₵4,630,970,000. (ESP = ₵5.38).



TANGIBLE FIXED ASSETS

NOTE 16

	BUILDING & ROAD WORKS	STAFF B'LOW FLATS	PLANT & MACHINERY	MOTOR VEHICLE	OFFICE FURN. & EQUIP.	B'LOW FURN. & EQUIP.	STORY EQUIP.	TOTAL
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
a) VALUATION								
Balance as at 1/10/2004	27,013,210	315,800	105,431,718	8,069,011	2,434,788	73,313	1,605,406	144,943,246
Additions		0	8,333,028	1,644,532	356,646	72,790	23,344	10,430,390
Transfers/Disposals		0	(119,090)	(200,768)	0	(32,038)	0	(351,896)
Balance as at 30/9/2004	27,013,210	315,800	113,645,656	9,512,815	2,791,434	114,065	1,628,750	155,021,740
b) DEPRECIATION								
Balance as at 1/10/2004	913,010	11,579	15,427,805	3,154,230	716,081	22,448	532,128	20,777,331
Transfers/Disposals	0	0	(28,211)	(164,215)	0	(12,912)	0	(205,338)
Charge for the year	522,004	6,084	9,567,806	1,395,254	407,506	14,347	217,012	12,130,013
Balance as at 30/9/2004	1,435,014	17,663	24,967,400	4,385,319	1,123,587	23,883	749,140	32,702,006
NET BOOK VALUE								
AT 1/10/2004	25,578,196	298,137	88,678,256	5,127,536	1,667,847	90,182	879,610	122,319,733
AT 30/9/2004	26,100,200	304,221	90,003,913	4,914,711	1,718,707	50,865	1,073,278	124,165,915

NOTES TO THE FINANCIAL STATEMENTS

	2004	2003
	€ '000	€ '000
17. STOCKS		
Work-in-Progress	0	3,082,818
Raw Materials Stock	38,138,450	78,083,946
Packaging Materials Stock	35,311,727	36,448,238
Finished Goods Stock	36,487,399	73,124,576
Technical Store Parts Stock	38,929,416	36,999,692
Fuel & Lubricant Stock	1,064,455	907,587
General Goods Stock	386,263	619,017
	150,317,710	229,265,874

18. ACCOUNTS RECEIVABLE: Amounts falling due within one year

Trade Debtors	36,719,664	44,401,659
Sundry Debtors	2,259,748	1,130,658
Staff Debtors	7,307,285	5,965,929
Import & Deposits (Letters of Credit)	39,021,557	16,510,066
Prepayment	0	3,424,287
	85,308,254	71,432,599

19. SHORT TERM INVESTMENT

Fixed Deposit - Merchant Bank	0	984,374
Fixed Deposit - NIB	0	1,627,391
91 - Day Treasury Bills	20,500	20,500
Fixed Deposit - Ecobank	4,527,463	3,918,037
Fixed Deposit - Prudential Bank	4,207,812	3,507,490
Fixed Deposit - Prudential USD	8,046,477	20,911,547
	16,802,252	30,969,339

20. CASH AND BANK BALANCES

Bank Balances	3,463,466	12,276,029
Cash in Hand	414,957	27,644
	3,878,423	12,303,673

21. ACCOUNTS PAYABLE: Amounts falling due within one year

Endowment Fund	(5,722)	(5,000)
Bank Overdraft	2,259,490	3,724,182
Trade Creditors	228,057,288	300,045,714
Taxation	1,323,993	165,752
Sundry Creditors	9,968,532	14,860,930
Accruals	182,822	120,604
	241,786,403	318,912,182

22. Borrowings

During the year the company secured two separate loans for Expansion of Production Capacity from 25,000 metric tonnes to 65,00 metric tonnes.

Total amount disbursed as at 30th September, 2004 for Project I :-

€'000

Barclays Bank led Syndicate Loan (EURO 9,760,501.39) 108,023,959

EDIF Loan 6,412,500

114,436,459

Total amount repayable over 5 years in equal monthly instalments after one year moratorium. The syndicated loan is denominated and repayable in EURO currency.

23. Capital Commitments

Following from note 22 above a Long-term commitment under Barclays Bank led Syndicate Loan in respect of Machinery and Equipment for Expansion Project II was made

€'000

124,455,216

Amount contracted for (EURO 10,371,268.00)

24. Stated Capital

a) The company is registered with 20,000,000,000 ordinary shares of no par value of which 861,475,000 shares have been issued for €24,167,000.00 and fully paid.

b) 1 Preference shares ("Golden Chocolate Share") of no par value which has been issued for €1,000,000.00 and fully paid.

The Government of Ghana holds the special rights redeemable preference shares of no par value (the Golden Chocolate Share). The Golden Share is non voting but the holder is entitled to receive notice of and to attend and speak at any general meeting of the members or at any separate meeting of the holders of any class of shares no winding up the class of shares on winding up the Golden share has a preferential right to return of Capital the value of which will be 1,000,000.00 cedis.

25. Capital Surplus (€82,376,059)

This represents net Revaluation Gain brought about as a result of Valuation of Fixed Asset by Messrs. Valuation and Investment Associates. The basis of this valuation is the Open Market Value for the existing Assets at January 2002.

26. Contingent Liabilities

The company is from time to time, party to legal proceedings and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings and claims, either individually or in aggregate, will have a material adverse effect upon the company's financial position.

NOTES TO THE FINANCIAL STATEMENTS

27. Prior Year Adjustments

	2004 €'000
Reversal of duplicated invoice Re: Orebi & Cie	470,124
Settlement of compensation due to off flavour Cocoa Liquor	1,741,200
Under Provision of Tax in previous years	1,699,370
	<u>3,910,694</u>

28 NOTES TO THE CASHFLOW STATEMENT
FOR 30TH SEPTEMBER, 2004a) RECONCILIATION OF OPERATING PROFIT
to Net Cash Flow from operating activities

	2004 CEDIS '000	2003 CEDIS '000
OPERATING PROFIT / (LOSS)	6,846,884	(40,944,122)
DEPRECIATION	12,130,013	11,988,993
(PROFIT) / LOSS ON SALE OF FIXED ASSETS	(51,156)	0
(INCREASE)/DECREASE IN STOCK	78,978,164	(133,488,762)
(INCREASE)/DECREASE IN DEBTORS	(13,427,766)	24,860,199
INCREASE/(DECREASE) IN CREDITORS	(79,612,722)	180,193,699
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	<u>4,863,417</u>	<u>42,610,007</u>

28.2. ANALYSIS OF CHANGE IN NET DEBTS
for the year ended 30th September, 2004

	1ST OCT 2003 CEDIS '000	Cash Flow CEDIS '000	Exchange Movement CEDIS '000	30TH SEPT. 2004 CEDIS '000
CASH AND BANK BALANCES	12,303,846	(8,569,444)	144,021	3,878,423
BANK OVERDRAFT	(3,724,355)	1,464,865	0	(2,259,490)
INCREASE / (DECREASE) IN CASH		(7,104,579)		
DEBTS DUE WITHIN ONE YEAR	0	0	0	0
DEBTS DUE AFTER ONE YEAR	(4,500,000)	(109,936,459)	0	(114,436,459)
CURRENT ASSETS INVESTMENTS:				
TREASURY BILLS	20,500	0	0	20,500
FIXED DEPOSITS / CALL A/C	30,948,839	(14,167,087)		16,781,752
	35,048,830	(131,208,125)	144,021	(96,015,274)



BALANCE SHEET

as at 30th September, 2005

	NOTES	2005		2004	
		(cmillion)	(cmillion)	(cmillion)	(cmillion)
FIXED ASSETS					
Tangible Assets	16		411,545		260,578
CURRENT ASSETS					
Stocks	17	101,692		150,317	
Accounts Receivable & Prepayments	18	103,076		85,308	
Investments (Short Term)	19	13,599		16,802	
Cash and Bank Balances	20	34,115		3,878	
		252,482		256,305	
CREDITORS: Amount Falling Due within 1 year					
Accounts Payable	21	267,534		241,786	
Proposed Dividends		2,584		0	
		270,118		241,786	
NET CURRENT ASSETS			(17,636)		14,519
Bank Loans (Medium Term)	23		(231,495)		(114,436)
NET ASSETS			162,414		160,661
CAPITAL AND RESERVES					
Stated Capital	24a		24,167		24,167
Redeemable Preference Shares	24b		1		1
Capital Surplus	25		79,304		82,376
Income Surplus Account			58,942		54,117
			162,414		160,661



DIRECTOR



DIRECTOR

The accompanying accounting policies and notes form an integral part of these financial statements

PROFIT AND LOSS ACCOUNT

for the year ended 30th September, 2005

	NOTES	2005 c million	2004 c million
Turnover	2	279,644	342,220
Less Cost of Goods Sold	8	(249,384)	(313,392)
Gross Profit or (Loss)		30,260	28,8
Selling & Distribution Costs	8	(3,401)	(3,307)
Administrative Expenses	8	(21,615)	(21,938)
Other Operating Income	4	1,749	3,263
Operating Profit/(Loss)		6,993	6,846
Profit/(Loss) on Sale of Fixed Assets	5	4	51
Profit/(Loss) on Ord. Activ. Before Int./Tax&NRL		6,997	6,897
Net Interest Payable/Receivable	6	602	(364)
Profit/(Loss) on Ord. Activ. Before Tax		7,599	6,533
Provision for Taxation/National Reconstructional Levy	13	(190)	(1,902)
Profit/(Loss) After Tax Transferred to		7,409	4,631
Income Surplus Account			
Basic Earnings per share	15	8.60	5.38

INCOME SURPLUS ACCOUNT

for the year ended 30th September, 2005

Balance on 01/10/2004		54,117	53,396
Prior Year Adjustment	27	0	(3,910)
Profit/(Loss) After Taxation		7,409	4,631
		61,526	54,117
Proposed Dividend	14	(2,584)	0
Closing Balance on 30/09/2005		58,942	54,117
		=====	=====

The notes on pages 21-31 form part of these financial statements. Auditors' Report page 16

CASHFLOW STATEMENT

for the year ended 30th September, 2005

	NOTE	2005 € million	2004 € million
Net Cashflow From Operating Activities	1	70,550	4,863
Returns on Investment and Servicing of Finance			
Interest received		1,009	649
Interest paid		(407)	(1,013)
Taxation			
Corporation Tax paid		(1,972)	(2,399)
Capital Expenditure and Financial Investment			
Purchase of Fixed Tangible Assets		(2,440)	(10,430)
Proceeds from Disposal of Fixed Tangible Assets		52	197
Expenditure on Capital Work in Progress		(153,221)	(123,074)
Equity Dividend Proposed		(2,584)	-
Cashflow Before use of Liquid Resources and Financing		(89,013)	(131,207)
Management of Liquid Resources			
Purchase of Treasury Bills		(190)	-
Redemption of Fixed Deposit and CALL Account	2	3,393	14,167
Financing			
Increase in medium-term Borrowings	2	117,058	109,936
Issue of shares			
(DECREASE) / INCREASE IN CASH	2	31,248	(7,104)

The accompanying accounting policies and notes form an integral part of these financial statements

NOTES TO THE CASHFLOW STATEMENT
for the year ended 30th September, 2005

**1. RECONCILIATION OF OPERATING
PROFIT TO NET CASHFLOW
FROM OPERATING ACTIVITIES**

	2005 €million	2004 €million
OPERATING PROFIT / (LOSS)	6,993	6,846
DEPRECIATION	6,956	12,130
(PROFIT) / LOSS ON SALE OF FIXED ASSETS	(4)	(51)
(INCREASE)/DECREASE IN STOCK	48,626	78,978
(INCREASE)/DECREASE IN DEBTORS	(17,767)	(13,428)
INCREASE/(DECREASE) IN CREDITORS	25,746	(79,612)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	70,550	4,863

**2. ANALYSIS OF CHANGE IN NET DEBTS
FOR THE YEAR ENDED 30TH SEPTEMBER 2005**

	1ST OCT 2004 €million	Cash Flow €million	Exchange Movement €million	30TH SEPT 2005 €million
CASH AND BANK BALANCES	3,878	29,674	562	34,114
BANK OVERDRAFT	(2,259)	1,574	-	(685)
INCREASE /(DECREASE) IN CASH		31,248		
DEBTS DUE WITHIN ONE YEAR	-	0	-	-
DEBTS DUE AFTER ONE YEAR	(114,436)	(117,058)		(231,494)
CURRENT ASSETS INVESTMENTS:				
TREASURY BILLS	20	190	-	210
FIXED DEPOSITS /CALL A/C	16,781	(3,393)		13,388
	(96,016)	(89,013)	562	(184,467)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30th September, 2005

1. Accounting Policies

The significant Accounting Policies adopted by the company and which have been used in preparing the Accounts are as follows: -

a. Basis of Accounting

The financial statements have been prepared based on the Historical Cost Convention, as modified by the revaluation of the fixed assets and complied with all applicable accounting standards.

b. Revenue Recognition

Export sales are recognized when the invoiced value of cocoa products supplied to customers and receivable free on board (FOB) are shipped. Local sales of confectionery and Cocoa Cake/Powder, net of Value Added Tax/National Insurance Levy and similar taxes are also recognized when they are invoiced.

c. Transactions in other Currencies

Transactions denominated in currencies other than cedis are translated at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than cedis are translated at the rates of exchange ruling at the year end. All translation differences are taken to profit and loss account.

d. Tangible Fixed Assets

Tangible fixed assets are recorded at cost/valuation less accumulated depreciation. Repairs and maintenance expenditures are charged against profit and loss as incurred. Major improvements and replacements that extend the useful life of an asset are capitalized.

e. Depreciation

Depreciation is provided on costs or revalued amounts on the basis of estimated useful lives of fixed assets. This has been calculated to write off the cost/valuation on a reducing balance basis as follows: -

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30th September, 2005

Building and Roadwork	2%
Staff Bungalow and Flats	2%
Plant and Machinery	5%-10%
Motor Vehicle	25%
Laboratory Equipment	20%
Office Furniture & Equipment	20%
Bungalow Furniture & Equipment	20%

f. Research and Development

Research costs are written off as incurred. Costs involved in the development of new recipes and products are also written off in the year of expenditure, except in certain circumstances when it may be deferred to future periods where the outcome is expected to be successful.

g. Interest and other Finance Costs

Interest is capitalized in respect of expansion and development projects as part of tangible fixed assets from the time it has been determined that a commercially viable process line exists up to the commencement of production. All other interest costs are charged against profit as incurred.

h. Stocks

Stocks are valued at the lower of cost and net realizable value. Cost includes, where appropriate, production and other direct overhead expenses, and is arrived at principally on the weighted average basis.

i. Accounts Receivable

These are shown at their face values less provisions in respect of debts that have proved irrecoverable.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30th September, 2005

2. Turnover

Turnover represents amounts receivable excluding discounts and sales related taxes, for products supplied during the period to both domestic and external customers.

	2005 € million	2004 € million
Cocoa Butter	119,492	142,595
Cocoa Liquor	90,819	117,048
Cocoa Cake	24,234	41,007
Cocoa Powder	10,723	10,037
Confectionery	34,376	31,533
	<u>279,644</u>	<u>342,220</u>

3. Analysis of Turnover

Type of Product	2005		2004	
	Export Sales € million	Local Sales € million	Export Sales € million	Local Sales € million
Semi-finished Products	233,293	11,976	296,174	14,514
Confectionery	<u>1,775</u>	<u>32,600</u>	<u>261</u>	<u>31,271</u>
	<u>235,068</u>	<u>44,576</u>	<u>296,435</u>	<u>45,785</u>

4. Other Operating Income

	2005 € million	2004 € million
Interest on Short-term Investments	1,072	2,093
Sale of Shells	229	737
Sale of Sacks, etc	448	433
	<u>1,749</u>	<u>3,263</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30th September, 2005

5. Exceptional Items

Exceptional items are those items within ordinary activities, which because of their size or nature are disclosed to give a proper understanding of the underlying results for the period. An exceptional profit of €4million arose in 2005 relating to the disposal of the following Tangible Assets: -

Assets	Net Book Value € million	Proceeds € million	Profit/(Loss) € million
Motor Vehicles	39	41	2
Plant & Machinery	9	11	2
	-----	-----	-----
	48	52	4
	-----	-----	-----

6. Interest Payable and Receivable

	2005 € million	2004 € million
Interest Receivable on Bank Deposits	66	57
Exchange Gains	943	592
Interest Payable on Bank Overdrafts	(407)	(1,013)
	-----	-----
	602	(364)
	-----	-----

7. Added value to Beans Processed

During the year, the company achieved an added value of 39.80% over and above direct sales of raw cocoa beans.

8. Operating Costs

	2005 € million	2004 € million
Raw Materials and Production Overheads	249,384	313,392
Selling and Distribution Costs	3,401	3,307
Administrative Expenses	21,615	21,938
	-----	-----
	274,400	338,637
	-----	-----

4

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30th September, 2005

9. Operating Profit

The operating Profit is derived after charging/(crediting) the following:

	2005	2004
	€ million	€ million
Staff Costs	39,199	31,853
Raw Cocoa Beans	182,577	220,017
Other Raw Materials and Packaging	28,623	25,210
Depreciation of tangible fixed assets	6,955	12,130
Profit on disposal of tangible fixed assets	(4)	(51)
Plant Repairs and Maintenance	3,662	2,713
Adverts and Promotions	361	668
Research and Development	37	10
Environmental Expenses	512	172
Audit Fees and Expenses	45	50
Directors' Emoluments	282	266
Stock Exchange Expenses	1,091	1,182
National Reconstruction Levy	190	143

10. Software Costs

Direct development costs associated with internal use software are capitalized and amortized. These include external direct costs of material and services and payroll costs for employees devoting time to the software projects.

Costs incurred during the preliminary project stage, as well as maintenance and training costs, are expensed as incurred.

11. Environmental & Sanitation

The company is committed to maintaining environmentally sound practices through the provision of adequate resources. The long term environmental obligations comprising among others, effluent water treatment are based on the company's environmental management plan [EMP]. The EMP is in compliance with the current regulations of the Environmental Protection Agency.

12. Employees

The average number of employees during the year was as follows: -

	2005	2004
Operatives	449	487
Supervisors	58	59
Senior Staff	63	64
Total	570	610

13. Taxation

The company was granted a Free Zone Manufacturing status on the 31st July 2004. Provision was therefore made for the ten months up to 31st July 2004 in the previous year's Accounts.

Tax Position

Y/A	T/C € million	T/PD € million	T/O € million
2004	1,902	578	1,324
2005	Nil	1,324	Nil

The standard rate for the year based on the Ghanaian tax rate for listed companies is 30% on Local sales and 8% on Export.

14. Dividends

Final proposed dividend €3.00 per share

There was no payment of dividend in respect of the year 2004

2005
€ million
2,584

15. Earnings per share (EPS)

The basic calculation of earnings per share is based on earnings after tax and the weighted average number of ordinary shares outstanding during the year of 861,475,000
Earnings after Tax is €7,409,948,000. (EPS = €8.60)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th September, 2005

16. MOVEMENT OF FIXED ASSETS	CAPITAL WORK IN PROGRESS	BUILDING & ROAD WORKS	STAFF BUNGALOW & FLATS	PLANT & MACHINERY	MOTOR VEHICLE	OFFICE FURN. & EQUIP.	B LOW FURN. & EQUIP.	L TORY EQUIP.	TOTAL
		€ MILLION	€ MILLION	€ MILLION	€ MILLION	€ MILLION	€ MILLION	€ MILLION	€ MILLION
a) COST/VALUATION									
Balance as at 1/10/2004	138,258	27,013	316	113,646	9,513	2,791	114	1,628	293,279
Additions	158,603	-	4	96	2,089	216	36	-	161,044
Disposal/Transfer	-	-	-	(4,100)	(201)	-	(11)	-	(4,312)
Balance as at 30/9/2005	296,861	27,013	320	109,642	11,401	3,007	139	1,628	450,011
b) DEPRECIATION									
Balance as at 1/10/2004	-	1,435	19	24,967	4,385	1,123	24	749	32,701
Disposal/Transfer	-	-	-	(1,028)	(161)	-	(2)	-	(1,191)
Charge for the year	-	512	3	4,435	1,467	336	24	176	6,956
Balance as at 30/9/2005	-	1,947	22	28,374	5,691	1,459	46	925	39,466
NET BOOK VALUE									
AT 30/9/2005	296,861	25,066	293	81,268	5,710	1,548	93	703	411,545
NET BOOK VALUE									
AT 30/9/2004	138,258	25,578	291	88,678	5,128	1,668	90	880	260,578

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th September, 2005

17. STOCKS

	2005 € million	2004 € million
Raw Materials Stock	12,112	38,138
Packaging Materials Stock	30,766	35,312
Finished Goods Stock	31,717	36,487
Technical Store Parts Stock	25,690	38,929
Fuel & Lubricant Stock	1,407	1,065
General Goods Stock	-	386
	101,692	150,317

18. ACCOUNTS RECEIVABLE: Amounts falling due within one year

Trade Debtors	31,145	36,720
Sundry Debtors	7,853	2,260
Staff Debtors	8,368	7,307
Import & Deposits (Letters of Credit)	54,748	39,021
Prepayment	962	-
	103,076	85,308

19. SHORT TERM INVESTMENT

91 - Day Treasury Bills	210	21
Fixed Deposit - Ecobank	-	4,527
Fixed Deposit - Prudential Bank	4,973	4,208
Fixed Deposit - Prudential USD	8,416	8,046
	13,599	16,802

20. CASH AND BANK BALANCES

Bank Balances	34,110	3,463
Cash in Hand	5	415
	34,115	3,878

21. ACCOUNTS PAYABLE: Amounts falling due within one year

Endowment Fund	-	(6)
Bank Overdraft	686	2,259
Trade Creditors	255,317	228,057
Taxation	-	1,324
Sundry Creditors	10,926	9,969
ACCRUALS	605	193
	267,534	241,786

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30th September, 2005

22. Post Balance Sheet Event

Included in the Trade Creditors is a total of ₵230.732 billion that represents outstanding debt owed to the CMC/COCOBOD, for raw cocoa beans supplied. The company has negotiated with the CMC/COCOBOD to restructure part of the debt by converting ₵143.768 billion into Equity and ₵86.963 billion into a short term loan. The Ministry of Finance and Economic Planning on the 8th November, 2005 consented to the restructuring of the debt subject to approval of the Shareholders.

23. Borrowings

EURO LOAN

The Company obtained a Loan Facility of Twenty Two million Euro (Euro 22 million) from a syndicate of Banks led by Barclays Bank of Ghana Limited for Expansion of Production Capacity from 25,000 metric tonnes to 65,000 metric tonnes. The other participating Banks were SG – SSB Bank Limited, The Trust Bank and ECOBANK Ghana Limited. The Loan Facility was secured with Fixed and Floating Assets of the Company. Disbursement of the Loan started in September, 2003 and the Facility Agreement was formally signed on the 18th February, 2005. The syndicated loan is denominated and repayable in EUROS over 5 years in equal monthly instalments after one year moratorium.

EDIF LOAN

The Company also obtained a total Loan Facility of sixteen billion, seven hundred and fifty million cedis [₵16.750 billion] from the Export Development and Investment Fund (EDIF) for the building and civil works of phase 1 of the Expansion Programme. The total facility of ₵16.750 billion comprised an initial amount of ₵6.750 billion and a supplementary facility of Ten Billion cedis [₵10.00 billion]. The Loan facility was secured with an amount of Eight Hundred Thousand United States Dollars [USD800,000.00] from the Company's US Dollar Fixed Deposit with Prudential Bank Limited. Total amount is repayable over 5 years in equal monthly instalments after one year moratorium.

The positions as at 30th September 2005 were:-

	2005 €million	2004 €million
Barclays Bank led Syndicate Loan (EURO 19,511,855.77)	215,946	108,024
EDIF Loan	15,549	6,412
Total	231,495	114,436
	=====	=====

24. Stated Capital

- a) The company is registered with 20,000,000,000 ordinary shares of no par value of which 861,475,000 shares have been issued for ₵24,167,000,000.00 and fully paid.
- b) 1 Preference shares ("Golden Chocolate Share") of no par value which has been issued for ₵1,000,000.00 and fully paid.

The Government of Ghana holds the special rights redeemable preference shares of no par value (the Golden Chocolate Share). The Golden Share is non-voting but the holder is entitled to receive notice of and to attend and speak at any general meeting of the members or at any separate meeting of the holders of any class of shares. On winding up, the Golden share has a preferential right to return of Capital, the value of which will be 1,000,000.00 cedis.

There are no outstanding shares in Treasury.

25. Capital Surplus

This represents net Revaluation Gain brought about as a result of Valuation of Fixed Asset by Messrs. Valuation and Investment Associates. The basis of this valuation is the Open Market Value for the existing Assets as at January 2002.

	2005 ₵million	2004 ₵million
Balance at 1/10/2004	82,376	82,376
Scrap value of unused plant & Machinery	(3,072)	-
	<u>79,304</u>	<u>82,376</u>

26. Contingent Liabilities

The company is from time to time, party to legal proceedings and claims, which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings and claims, either individually or in aggregate, will have a material adverse effect upon the company's financial position.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30th September, 2005

27. Prior Year Adjustments

	2005 € million	2004 € million
Reversal of duplicated invoice Re: Orebi & Cie	-	470
Settlement of compensation due to Off flavour cocoa liquor	-	1,741
Under Provision of Tax in previous years	-	1,699
	-	3,910
	-	-

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30th September, 2005

COCOA PROCESSING COMPANY LIMITED

SHAREHOLDING DISTRIBUTION

30TH SEPTEMBER 2005

Category of Holdings	No. of Shareholders	Total Holding	Percentage Holding (%)
1 to 1,000	26,242	12,102,399	1.40
1,001 to 5,000	17,501	39,310,679	4.57
5,001 to 10,000	1,576	12,244,842	1.43
Over 10,000	878	797,817,080	92.60
Total	46,197	861,475,000	100.00

Directors Shareholding (as at 30th September 2005)

Name	2005 No. of Shares
Hon. Cecilia Abena Dapaah-MP	15,000
Richard Amah Tetteh	552,000
John Amo Bediako	15,000
Hon. Osei Kyei-Mensah-Bonsu-MP	19,000
David Coleman	15,000
Hon. S. K. Balado-Manu-MP	15,000
Kwame Sarpong	16,000
H.A.K. Fiamor	15,000

	662,000

INCOME STATEMENT FOR THE YEAR ENDED 30TH SEPTEMBER 2007

	NOTES	30/09/2007 AMOUNTS GH¢	30/09/2006 AMOUNTS GH¢
Revenue	2	48,217,223	29,043,600
Cost of Sales	3	(44,534,444)	(26,072,400)
Gross Profit or (Loss)		3,682,779	2,971,200
Other Income	4	390,674	292,700
Selling & Distribution Costs		(558,639)	(700,600)
Administrative Expenses		(1,520,413)	(1,697,000)
Profit/(Loss) from Operations		1,994,401	866,300
Finance Costs	5	(166,675)	(51,000)
Redundancy Cost	8	(1,180,533)	(0)
Profit/(Loss) Before Tax		647,193	815,300
Provision for Tax/National Reconstruction Levy		(0)	(20,400)
Profit for the period		<u>647,193</u>	<u>794,900</u>
Basic Earnings per share	10	GH¢ 0.00058	GH¢ 0.00092

INCOME SURPLUS ACCOUNT FOR THE YEAR ENDED 30TH SEPTEMBER 2007

	30/09/2007 AMOUNTS GH¢	30/09/2006 AMOUNTS GH¢
Balance on 01/10/2006	6,344,500	5,894,200
Profit/(Loss) for the year	<u>647,193</u> 6,991,693	<u>794,900</u> 6,689,100
Proposed Dividend	(440,330)	(344,600)
Closing Balance	<u>6,551,363</u>	<u>6,344,500</u>

BALANCE SHEET AS AT 30TH SEPTEMBER 2007

	NOTES	30/09/2007 AMOUNTS GH¢	30/09/2006 AMOUNTS GH¢
ASSETS			
Non-Current Assets			
Property, Plant & Equipment	11	<u>61,259,485</u>	<u>48,430,300</u>
Current Assets			
Inventories	12	16,576,019	22,510,000
Trade and Other Receivables	13	24,398,993	5,414,400
Short-term Investments	14	1,568,979	1,444,600
Cash and Cash Equivalents	15	<u>2,828,398</u>	<u>1,643,900</u>
		<u>45,372,389</u>	<u>31,012,900</u>
Total Assets		<u>106,631,874</u>	<u>79,443,200</u>
EQUITY AND LIABILITIES			
Current Liabilities			
Trade and Other Payables	16	30,150,134	41,491,410
Dividends Payable	17	<u>440,330</u>	<u>344,600</u>
		<u>30,590,464</u>	<u>41,836,010</u>
Non-Current Liabilities			
Bank Loans (Medium Term)	18	<u>44,781,342</u>	<u>20,915,500</u>
Equity			
Stated Capital	19	3,088,186	2,416,700
Redeemable Preference Shares		100	100
Capital Surplus	20	21,620,419	7,930,390
Income Surplus Account		<u>6,551,363</u>	<u>6,344,500</u>
Shareholders Fund		<u>31,260,068</u>	<u>16,691,690</u>
Total Equity and Liabilities		<u>106,631,874</u>	<u>79,443,200</u>


Richard Amah Tetteh
DIRECTOR


Charles Boakye Nimako
DIRECTOR

The accompanying accounting policies and notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH SEPTEMBER 2007

	Stated Capital GH¢	Capital Surplus GH¢	Income Surplus GH¢	Total GH¢
Balance at 1st October 2006	2,416,726	7,930,390	6,344,500	16,691,616
Net Profit			647,193	647,193
Debt/ Equity conversion	671,460	13,690,029		14,361,489
Released on Disposal				
Dividend proposed			(440,330)	(440,330)
Balance at 30th September 2007	<u>3,088,186</u>	<u>21,620,419</u>	<u>6,551,363</u>	<u>31,259,968</u>

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH SEPTEMBER 2006

	Stated Capital GH¢	Capital Surplus GH¢	Income Surplus GH¢	Total GH¢
Balance at 1st October 2005	2,416,726	7,930,390	5,894,200	16,241,316
Net Profit			794,900	794,900
Debt/ Equity conversion				
Released on Disposal				
Dividend proposed			(344,600)	(344,600)
Balance at 30th September 2006	<u>2,416,726</u>	<u>7,930,390</u>	<u>6,344,500</u>	<u>16,691,616</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED 30TH SEPTEMBER 2007

	30th SEPT 2007 GH¢	30th Sept 2006 GH¢
CASH FLOW FROM OPERATING ACTIVITIES		
Net Operating Profit	1,994,401	707,700
Depreciations	737,137	740,800
(Increase)/Decrease in Inventories	5,933,981	(12,340,800)
(Increase)/Decrease in Account Receivables	(2,092,856)	4,893,200
(Increase)/Decrease in Letters of Credit	(13,811,410)	0
Increase/(Decrease) in Account Payables	(11,685,865)	14,738,000
Redundancy Costs	(4,260,860)	0
Net Cash from Operating Activities	(23,185,472)	8,738,900
CASH FLOW FROM INVESTING ACTIVITIES		
Interest received	0	30,000
Purchases of Property, Plant and Equipment	(13,329,771)	(7,963,500)
Proceeds on disposal of property, plant and equipment	191,741	0
(Increase)/Decrease in Fixed Deposits	(124,379)	(84,700)
Net Cash Used for Investing Activities	(13,262,409)	(8,018,200)
CASH FLOW FROM FINANCING ACTIVITIES		
Issue of share	14,361,489	0
Dividends Paid	(428,277)	(254,300)
Finance Costs	(166,675)	0
Increase/(Decrease) in Medium Term Loans	23,865,842	(2,234,000)
Net Cash (used in) from financing Activities	37,632,379	(2,488,300)
Increase/(Decrease) in Cash	1,184,498	(1,767,600)
Cash and Cash Equivalents at Beginning of Period	1,643,900	3,411,500
Cash and Cash Equivalent at End of Period	2,828,398	1,643,900

The accompanying accounting policies and notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The significant Accounting Policies adopted by the company and which have been used in preparing the Accounts are as follows: -

a) Basis of Accounting

The financial statements have been prepared based on the Historical Cost Convention, as modified by the revaluation of the fixed assets and complied with all applicable accounting standards.

b) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts for goods sold in the normal course of business net of discounts, VAT/National Insurance Levy and other sales related taxes.

Exports sales are recognized when the invoiced value of cocoa products supplied to customers and receivable free on board (FOB) are shipped. Local sales of confectionery and Cocoa Cake/Powder are also recognized when goods are delivered and title has passed.

Transactions in other Currencies

Transactions denominated in currencies other than cedis are translated at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities that are denominated in currencies other than cedis are retranslated at the rates of exchange prevailing on the Balance Sheet date. All translation differences are taken to profit and loss account.

c) Property, Plant and Equipment

Tangible fixed assets are recorded at cost/valuation less accumulated depreciation. Repairs and maintenance expenditures are charged against profit and loss as incurred. Major improvements and replacements that extend the useful life of an asset are capitalized.

d) Depreciation

Depreciation is provided on costs or revalued amounts on the basis of estimated useful lives of fixed assets. This has been calculated to write off the cost/valuation on a reducing balance basis as follows: -

Building and Roadwork	2%
Staff Bungalow and Flats	2%
Plant and Machinery	5%
Motor Vehicle	25%
Laboratory Equipment	20%
Office Furniture & Equipment	20%
Bungalow Furniture & Equipment	20%

e) Research and Development

Research costs are written off as incurred. Costs involved in the development of new recipes and products are also written off in the year of expenditure, except in certain circumstances when it may be deferred to future periods where the outcome is expected to be successful.

f) Interest and other Finance Costs

Interest is capitalized in respect of expansion and development projects as part of tangible fixed assets from the time it has been determined that a commercially viable process line exists up to the commencement of production.

exists up to the commencement of production. All other interest costs are charged against profit as incurred.

g) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where appropriate, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

h) Accounts Receivable

Trade receivables do not carry interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

i) SOFTWARE COSTS

Direct development costs associated with internal use software are capitalized and amortized. These include external direct costs of materials and services and payroll costs for employees devoting time to the software projects.

Costs incurred during the preliminary project stage, as well as maintenance and training costs, are expensed as incurred.

j) ENVIRONMENTAL & SANITATION

The company is committed to the provision of adequate resources to ensure that environmental issues are given prior attention and also maintain environmentally sound practices. The long-term environmental obligations comprising effluent water treatment are based on the company's environmental management plan [EMP]. The EMP is in compliance with the current regulations of the Environmental Protection Agency.

2. REVENUE

Analysis of the Company's revenue is as follows:

Type of Product	SEPT. 2007 GH¢	SEPT. 2006 GH¢
Cocoa Butter	25,491,921	3,824,900
Cocoa Liquor	14,742,899	18,959,000
Cocoa Cake	3,116,178	871,800
Cocoa Powder	313,084	709,900
Confectionery	4,553,141	4,678,000
	<u>48,217,223</u>	<u>29,043,600</u>

NOTES TO THE FINANCIAL STATEMENTS

Analysis of Product Market

	2007		2006	
	Export Sales GHC	Local Sales GHC	Export Sales GHC	Local Sales GHC
Semi-Finished Products	42,801,859	862,223	23,160,800	1,204,800
Confectionery	1,436,266	3,116,875	492,800	4,185,200
	<u>44,238,125</u>	<u>3,979,098</u>	<u>23,653,600</u>	<u>5,390,000</u>

3. COST OF GOODS SOLD

Comprises raw materials, packaging materials and conversion costs

	SEPT. 2007 GHC	SEPT. 2006 GHC
Raw Materials and Conversion Costs, etc.	<u>44,534,444</u>	<u>26,072,400</u>

4. OTHER INCOME

	SEPT. 2007 GHC	SEPT. 2006 GHC
Sale of Shells, Sacks etc	122,900	134,100
Profit on Disposal of Property, Plant & Equip.	23,345	0
Interest Received & Exchange Gains	244,429	158,600
	<u>390,674</u>	<u>292,700</u>

5. FINANCE COSTS

Interest on Bank Overdraft	8,484	51,000
Interest on EDIF Loan	29,938	0
Interest on Syndicated Loan	128,253	0
	<u>166,675</u>	<u>51,000</u>

6. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after Charging/ (crediting) the following:

	SEPT. 2007	SEPT. 2006
	GHC	GHC
Other Raw Materials and Packaging	2,846,558	2,512,300
Depreciation of tangible fixed assets	737,137	740,600
Plant Repairs and Maintenance	131,931	250,600
Adverts and Promotions	149,331	265,400
Research and Development	710	1,100
Environmental Expenses	174,490	129,600
Audit Fees and Expenses	6,600	5,500
Director's Emoluments	95,229	34,700

7. STAFF COSTS

The average number of employees during the year was as follows:

Employee Categories	SEPT. 2007 Number	SEPT. 2006 Number
Operatives	179	436
Supervisors	39	56
Senior Staff	57	65
	<u>275</u>	<u>557</u>

Aggregate Remuneration	SEPT. 2007 GHC	SEPT. 2006 GHC
Wages and Salaries	1,366,999	1,722,600
Social Security Costs	159,752	206,100
Other Pensions	96,771	115,400
	<u>1,623,522</u>	<u>2,044,100</u>

NOTES TO THE FINANCIAL STATEMENTS

12. INVENTORIES

	SEPT. 2007	SEPT. 2006
	GHC	GHC
Raw Materials	8,004,858	8,517,900
Packaging Materials	2,612,998	2,996,500
Finished Goods	2,945,449	8,157,700
Technical Store Parts	2,870,130	2,681,300
Fuel & Lubricant	142,584	156,600
	<u>16,576,019</u>	<u>22,510,000</u>

13. TRADE AND OTHER RECEIVABLES: (Amounts falling due within one year)

Trade Receivables	6,011,773	1,914,200
Other Receivables	859,907	2,263,848
L/C Deposits (Projects)	13,811,410	1,125,652
Prepayments	3,715,903	110,700
	<u>24,398,993</u>	<u>5,414,400</u>

14. SHORT TERM INVESTMENTS

91- Day Treasury Bills	23,619	23,000
Fixed Deposit - Prudential Bank	630,251	549,900
Fixed Deposit - Prudential USD	915,109	871,700
	<u>1,568,979</u>	<u>1,444,600</u>

15. CASH AND BANK BALANCES

Bank Balances	2,763,079	1,638,900
Cash in Hand	65,319	5,000
	<u>2,828,398</u>	<u>1,643,900</u>

16. TRADE AND OTHER PAYABLES: (Amounts falling due within one year)

Trade and other payables principally comprised amount outstanding for trade purchases and ongoing costs.

	SEPT. 2007	SEPT. 2006
	GHC	GHC
Bank Overdraft	3,014,583	1,308,200
Trade Payables	26,358,052	39,045,800
Other Payables	777,499	1,092,500
Accruals	0	44,900
	<u>30,150,134</u>	<u>41,491,400</u>

	SEPT. 2007 GH¢	SEPT. 2006 GH¢
17. DIVIDENDS		
Amount recognised as distribution to Equity Holders in the period:		
Final dividend for the year ended 30th September, 2006 GH¢ 0.0004 per share		344,600
Proposed final dividend for the year ended 30th September, 2007 GH¢ 0.0004	440,330	

The proposed final dividend is subject to approval by Shareholders at Annual General Meeting before being recognised in the financial statement.

18. BORROWINGS

Balances on existing Loan facilities at 30th September, 2007:

	SEPT. 2007 GH¢	SEPT. 2006 GH¢
Barclays Bank led Syndicate Euro Loan	18,624,900	19,706,200
Barclays Bank led Syndicate USD Loan	16,414,873	0
EDIF Loan (Cedi)	863,816	1,209,300
COCOBOD Loan (USD)	8,877,753	0
	<u>44,781,342</u>	<u>20,915,500</u>

19. STATED CAPITAL

- The company is registered with 20,000,000,000 ordinary shares of no par value of which 1,100,826,240 shares have been issued for GH¢3,088,186 and fully paid.
- 1 Preference share (Golden Chocolate Share) of no par value which has been issued for GH¢100.00 and fully paid.

The Golden Chocolate Share is held by the Government of Ghana. It is a non voting but the holder is entitled to receive notice of and to attend and speak at any general meeting of the members or at any separate meeting of the holders of any class of shares. On winding up, the Golden share has a preferential right to return of capital, the value of which will be GH¢100.00.

There are no outstanding shares in Treasury.

NOTES TO THE FINANCIAL STATEMENTS

20. CAPITAL SURPLUS

This represents net Revaluation Gain brought about as a result of Valuation of Fixed Asset by Messrs. Valuation and Investment Associates. The basis of this valuation is the Open Market Value for the existing Assets as at January 2002.

	SEPT. 2007	SEPT. 2006
	GHC	GHC
Balance	7,930,390	7,930,390
Debt/Equity Conversion	13,690,029	0
	<u>21,620,419</u>	<u>7,930,390</u>

21. CONTINGENT LIABILITIES

The company is from time to time, party to legal proceedings and claims, which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings and claims, either individually or in aggregate, will have a material adverse effect upon the company's financial position.

20 LARGEST SHAREHOLDERS AS AT 30TH SEPTEMBER 2007

Shareholder's Name	No. of Shares	Percentage Holdings (%)
Government of Ghana	516,884,200	46.95
Ghana Cocoa Board (COCOBOD)	239,351,240	21.74
Social Security & National Insurance Trust	206,754,000	18.78
NTHC Limited	15,669,900	1.42
State Insurance Company	3,200,000	0.29
Ashanti Goldfields Co. Ltd. Employees	3,200,000	0.29
Galtere International Fund	2,020,535	0.18
Ghana Reinsurance Company Ltd	1,600,000	0.15
Agricultural Development Bank	1,600,000	0.15
Donewell Insurance Company Limited	1,120,000	0.10
Sealing Consulting	1,103,321	0.10
Mensah Baah Matthew	960,000	0.09
Boohene Edward Henaku	800,000	0.07
Donewell Insurance Company Limited	800,000	0.07
Ghana Libyan Arab Holding Co.	800,000	0.07
Badu Collins	730,000	0.07
Tetteh Richard Amarh	552,000	0.05
Acra Consolidated Limited	500,000	0.05
Teachers' Fund	500,000	0.05
Insurance Compensation Fund	480,000	0.04
	998,625,196	90.72

DIRECTORS' SHAREHOLDING AS AT 30TH SEPTEMBER, 2007

RICHARD AMARH TETTEH	552,000
HON. S.K. BALADO MANU MP	15,000
DAVID COLEMAN	15,000
JOHN AMO BEDIAKO	15,000
HON. OSEI KYEI-MENSAH-BONSU MP	19,000
ISAAC OSEI	100,000
OLIVER KWABENA AYIVI	7,330
	723,330

PROFIT AND LOSS ACCOUNT

for the year ended 30th September, 2004

	NOTES	2004 ¢'000	2003 ¢'000
Turnover	2	342,220,912	344,509,244
Cost of Goods Sold	8	<u>(313,392,321)</u>	<u>363,618,538</u>
Gross Profit (Loss)		28,828,591	(19,109,294)
Selling and Distribution Costs	8	(3,307,342)	(3,398,637)
Administrative Expenses	8	(21,937,417)	(18,759,854)
Other Operating Income	4	<u>3,263,052</u>	<u>(2,708,398)</u>
Operating Profit/(Loss)		6,846,884	(38,559,387)
Profit/(Loss) on Sale of Fixed Assets	5	<u>51,156</u>	<u>0</u>
Profit/(Loss) on Ord. Activ. Before Int. & Tax		6,898,040	(38,559,387)
Net Interest Payable / Receivable	6	<u>(364,212)</u>	<u>35,093,872</u>
Profit/(Loss) on Ord. Activ. Before & Tax		6,533,828	(3,465,515)
Provision for Tax on Profit on Ordinary Activities	13	<u>(1,902,858)</u>	<u>(909,741)</u>
Profit/(Loss) After taxation transferred to Income Surplus Account		<u>4,630,970</u>	<u>(4,375,256)</u>
Earnings per share	15	5.38	0

INCOME SURPLUS ACCOUNT

for the year ended 30th September, 2004

Balance at 1/10/2003		53,396,867	62,592,766
Prior Year's Adjustment	26	(3,910,694)	(4,820,643)
Profit/(Loss) for the year		<u>4,630,970</u>	<u>(4,375,256)</u>
Proposed Dividend		<u>54,117,143</u>	<u>53,396,867</u>
Balanced at 30 / 09 / 2004		<u>0</u>	<u>0</u>
		<u>54,117,143</u>	<u>53,396,867</u>

The notes on pages 21 to 30 form part of these financial statements. Auditors' Report page 16.