

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL FIVE

INTEGRATION OF KNOWLEDGE - PAPER 19

COMPREHENSIVE CASE STUDY QUESTIONS

TUESDAY, 17 JUNE 2003

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours 30 minutes**
12.00 – 3.30 p.m. (3 hours 30 minutes) Writing
2. The following pages contain a compulsory case study questions to be used for writing your answer.
3. The answers to the case study and any working papers, clearly labeled as such, must be handed in at the end of the afternoon session. Where working papers and notes form part of your answer, ensure they are appropriately cross-referenced.
4. It is in your interest to hand in **all** written work you prepared during the examination.
5. Please read further instructions on the answer book.

ROWAN JAMES & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

INTERNAL MEMORANDUM

FROM: Rowan Sonko - Managing Partner

TO: Samuel Matovu.

DATE: 17 June 2003

SUBJECT: PROPOSED MERGER AND MANAGEMENT ISSUES

Further to the information availed to you this morning, I am requesting you to analyze and interpret the issues raised by the consultant with a view of recommending a way forward for our business. In particular, I would request you to address yourself to the following matters:

- (a) The consultants have raised a number of issues relating to auditors' independence globally and Uganda in particular, to which *Mr. Okot* has tried to respond. Please advise whether or not the responses are adequate. If not, what further actions do we need to take to improve on independence should the merger be finalised?

(20 marks)

- (b) Further to the above, please indicate if there are any other factors that affect independence that were not raised by the consultants, which in your view we should consider.

(5 marks)

- (c) In order to sell this merger proposal to my colleagues they will need to be very clear of the benefits (financial or otherwise) that will accrue to the firm should the deal be finalised. Using the data provided (after restating the financial statements of *Okot Consult Ltd* to comply with IAS 12 and other considerations, it will be necessary to point out the benefits or otherwise of the merger.

I would also be interested in the reconciliation of the company's latest balance sheet for the year 2001 and the income statement for the same year, by way of a cash flow statement for the year 2001. It is my understanding that the cash flow will assist in explaining the source and uses of liquid funds of the company.

(30 marks)

- (d) Out of my discussions with *Mr. Okot* he would be comfortable with two alternative values for the total equity of *Okot Consult Ltd* – *net assets & P/E ratio based on earnings*. Advise and discuss which basis should be used, taking into consideration the interests of the founder directors of *Okot Consult Ltd* and of the venture capitalists (the international firm). It has been

established that consultancy companies quoted on the Uganda Securities Exchange (in the same field as *Okot Consult Ltd*) the range of P/E ratios is currently between 10% and 15%. This should give you an indication of what an appropriate P/E ratio would be for unquoted consultancies like Okot Consult Ltd.

(10 marks)

- (e) On the ICT side, the consultants are recommending adoption of new systems. These will have to be developed and implemented as a project. Please recommend an appropriate range of project management tools and techniques, which we can use to achieve an effective and efficient change over to new ICT systems.

(10 marks)

- (f) We need to have all our plans ready such that once the deal is concluded we immediately spring into action. On the marketing side my understanding is that we need to change the way we have always got new business. We need to adopt a marketing oriented stance to the management of the business. Advise and suggest a possible approach to the development of a marketing plan for the "new merged business". I would expect you to address yourself to the differences that are likely to arise between the marketing of consumer products and the marketing of accountancy services, audit services and general management consultancy services. Understanding these differences will influence the way we should be marketing ourselves.

(10 marks)

- (g) Changes come with a lot of issues that need to be managed. I understand we shall require having a formal, tailor made and focused training programme under the new merged business. Again picking on your brains, advise on how we could probably put up the required staff-training plan.

(10 marks)

- (h) I must let you know that your performance evaluation for this year and possible promotion to a new rank in the new company will be based on the strength of your advice in the above issues. The figures in the brackets indicate the maximum score (out of 95%) attributable to each area on the performance evaluation form and an additional 5% is available for a clear conclusion.

(5 marks)

(Total 100 marks)

I look forward to reading your recommendations.

Rowan Sonko
Managing Partner