

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

AFTERNOON SESSION MATERIAL

THURSDAY, 16 DECEMBER 2004

INSTRUCTIONS TO CANDIDATES

1. Time allowed : **3 hours 30 minutes**.
2. The following pages contain compulsory case study questions.
3. The appendices are also attached.
4. The completed answer to the case study must be handed in at the end of the examination.
5. All answers to the case study and any working papers, clearly labelled as such, must be handed in at the end of the session. Where working papers and notes form part of your answer, ensure they are appropriately cross-referenced.
6. It is in your interest to hand in **ALL** written work you prepared during the examination.
7. Please read further instructions on the answer book.

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Norman Kabanda feels that in order to make the best decision and find a way forward there is a need to have the issues at KPL understood in an impartial and professional manner. He recognises that if he is to succeed in changing the status quo, he must be able to understand the human resources, marketing and production issues. He also needs to assess the performance of KPL for the last period in order to decide whether more money should be invested or not. On reflection, he deems it necessary to have a planned approach to the problems of KPL.

He decides that Richard Gateera who has been involved with the company for a while and may not be the right person to use to assess the situation, especially as the audit opinion had been qualified with respect to comparatives, inventory and trade receivables. He then writes to you asking for your assistance. His letter so far...

Dear CPA,

Re: Situational and Viability Analysis for KPL

You will recall that on several occasions, I have intimated to you my desire to transform KPL into a more robust business in order to enable its holding company (MUGOYA) take the best decision in its interest.

I have, however, found that my involvement over the last few months does not position me independently to assess some of the issues that may have a direct effect on my remit: to build the company's operations until such a time as it could be profitably sold or prove a viable part of the MUGOYA Group.

I am now appointing your firm to review the following matters that I think are relevant to my decision making process. You may also advise me on any other technical matters, as you may deem reasonably important in meeting the objectives of my remit.

1. Human Resource Management and Industrial Relations: to undertake a review of the labour relations, HR planning requirements, employment and training strategies given the location and employment difficulties in the immediate neighbourhood of the firm. Specific employee matters like in the case of the retiring director and his tax liability may also warrant your comment.
2. To advise us on an appropriate marketing structure given the market characteristics, consumer behaviour, market segments and pricing issues.
3. Assess the IT import of the developments in the printing industry. Specifically we are interested in reviewing management systems, facilities planning, production scheduling and quality control.
4. To carry out an assessment of the financial performance of the firm using ratio analysis and any other quantitative analyses that you believe may be useful in arriving at the decisions.

5. Preparation of Financial Statements:

- (a) We are concerned with the lack of a provision for deferred taxation in the financial statements and we believe that this has inflated the reported profit. However, we are not clear on how such a provision can be brought into the financial statements or how it actually does arise. We need expert input on this matter.
- (b) The financial statements presented to you are abridged. I however feel that they may be lacking in some respects as set out in **IAS 1: Presentation of Financial Statements**. Also on account of the fact that the auditors qualified their report and did not feel satisfied by the comparatives, inventory and trade receivables figures. We think that your comment on this matter as well as advice on how to draw up more comprehensive financial statements would be welcome.
- (c) We have also been considering the possibility of investing in some new plant and the projections relating to that investment are attached. You must assess this investment, taking into account the need to balance time and the cost of money.

In carrying out your work, it is important that you take cognisance of other environmental factors of which we may not be aware. You may use your experience in other consultancies to make an assessment. We expect that you will write a comprehensive and structured report covering all the detailed matters raised by the material availed to you. Please find attached herewith a data set, which will aid your analysis.

Norman Kabanda
Managing Director

Proposed Investment Project

Due to the rapid technological changes taking place in the industry, we believe that KPL needs to invest in a specific top of the range finishing line, even though the current equipment is modern and efficient.

The cost of the proposed investment is Shs 100,000,000. The specific returns from the investment are estimated at Shs 45,000,000 per annum for the next four years. The working capital requirement for this investment is Shs 7,500,000 which shall be recovered after year 4. The provision for a writing down allowance is 20% on a straight line basis and this provides for a salvage value equivalent to the undepreciated amount after year 4. Tax is deductible at the rate of 30% after the WDA but is lagged by a year since all tax payments are due in the year following the relevant reporting period.

Due to the good relationship with our bankers and the use of APEX funds, we have been able to access credit at 14% per annum. Of course we are worried about interest rate volatility and need to know the internal rate of return for this project. Normally we also would not accept projects with a pay back period exceeding four years but we must move with the times. Please advise us on the practicality of investing in this finishing line.