

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

MORNING SESSION MATERIAL

THURSDAY, 16 DECEMBER 2004

INSTRUCTIONS TO CANDIDATES

1. Time allowed : **5 hours 30 minutes**.
9.00 – 11.00 a.m. (2 hours): **Planning**
11.00 – 12.00 a.m. (1 hour): **Break**
12.00 – 3.30 p.m. (3 hours 30 minutes): **Writing**
2. The following pages contain a compulsory case study.
3. The exhibits and 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 afternoon 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.

Kasulu Printers Ltd

On the 1 January 2004, Norman Kabanda was made Managing Director of Kasulu Printers Ltd. (KPL), a medium size general printing firm situated on the outskirts of Jinja town. KPL had recently been acquired by MUGOYA Industrial Holdings Ltd, along with a number of other companies, which made up Nassafu Cross Ltd., a loosely structured industrial holding company. MUGOYA had bought the group in order to gain control of two of its profitable engineering companies. They had succeeded in selling off or closing down another seven companies but failed to find a buyer for KPL. It continued to make modest profits (see exhibit 5 and MUGOYA were loth to close it down especially in an area of high unemployment. Accordingly, Norman Kabanda, assistant to the Group Managing Director, was asked to take over the running of KPL.

Kabanda's remit was clear. He was to build up the company's operations until such time as it could be profitably sold or else prove itself a viable part of MUGOYA. By early March of 2004 Kabanda had had time to familiarize himself with KPL's structure, operations and opportunities and he was about to call a management committee meeting to tell them what he intended to do.

John Kasulu had founded KPL in the 1980s as a small jobbing printing company. By the time it was acquired by Nassafu Cross Ltd., in the late 1990s, the company had made the transition from a family firm to an industrial company with professional management. Kasulu left the company when he sold it to Nassafu Cross Ltd., but his General Manager, George Ibaale. stayed on until the MUGOYA takeover, at which time he retired.

KPL specialized in quality letterpress and litho printing and much of its equipment was modern and efficient. It had a full range of facilities including a small design studio. Industrial relations in the plant were reasonably good though the Sales Director attributed this to the fact that they had bought the unions off time and time again. He would usually go on to say that it would have to stop sometime.

There were 93 people employed in the factory of whom five were in a supervisory capacity. The sections and roles were clearly defined and staff was supposed to be specialized in a specific task, which they carried out on the production line. The sales, design, general administration and accounting offices accounted for 24 people and there were four salesmen.

The actual breakdown of employees in the factory was as follows:

Department	Number
Factory	88
Factory Management	5
Sales	4
Directors	4
Other Administrative staff	24

Under Norman Kabanda, there were three directors: finance, production and sales. He had interviewed each of them several times during January and February 2004 and much of the information he needed to make his first decisions came from them.

Richard Gateera, the Finance Director, was something of a surprise. He was 34 years old, a Certified Public Accountant and had graduated from Makerere University Business School with an MBA. He had joined KPL about a year before the takeover. Gateera was not impressed by KPL's performance or by its accounting system. He had spent the last year doing something about the latter, and he now expected Kabanda to do something about the former. He saw no critical problem areas; in his view everything needed improving 'by about 20% to 25%'. He had also carried out a preliminary SWOT analysis for the purpose of assessing the industry position of KPL, even though this was incomplete. The results were as follows:

Strengths <ul style="list-style-type: none"> • Well established business • Skilled staff • Versatility in production • Big labour pool due to unemployment 	Weaknesses <ul style="list-style-type: none"> • Transitory management • Delays in policy making • Deep hierarchical structure • Poor work culture • Weak internal control procedures
Opportunities <ul style="list-style-type: none"> • Expanding economy • Low inflation 	Threats <ul style="list-style-type: none"> • Rapidly changing technology • KPL not core to MUGOYA • Labour union • Fragmented print market

The last audited financial statements of KPL had included a qualified opinion which Kabanda felt had to be dealt with. The audit report is shown in Exhibit 4

David Emsugut, the Production Director, was approaching retirement age. He had worked in KPL since inception and was an expert in printing techniques. He still kept up to date with printing developments and regularly travelled to exhibitions and conferences in East Africa and Europe. He told Norman Kabanda, "I leave most of the day-to-day detail to the Factory Manager and the shift supervisors. We are probably one of the few printing companies around making any sort of money. That's because we can handle any kind of job no matter how technically difficult it is. That's not to say we don't do run of the mill stuff: we do. But what we are known for is our technical skills. Our staff take pride in their work. There are few printing shops in the country that can touch us".

Emsugut felt that the only problems they had were typical of Uganda in the late 1990s, such as delays by the Board to approve investment in state of the art technology which competitors were doing rapidly, unreliability of power supply

and employee tardiness. He fervently hoped that MUGOYA would leave them alone to get on with their job. After all, he was going to retire and he was more worried about obtaining appropriate tax relief on his retirement benefits from the Uganda Revenue Authority. He had worked with the same employer for a period exceeding 10 years and was eyeing a nice package.

Alex Ojok was in his mid forties and had only recently returned to work after a heart attack. Although he ate less and jogged every day he still worked long hours and clocked up hundreds of miles in his company car every month. Ojok explained that KPL was largely a jobbing printer although at the quality end of the market. It was becoming harder and harder to get new customers because of the proliferation of printers in the country. Many clients were also not conversant with quality standards, which KPL had as a core value.

'I handle the major accounts which are mostly in and around the Central Region though there are significant customers in Kampala. Each of the four representatives has a territory; Kampala and the South, Western Region and the Congo, Eastern Region and Kenya, Northern Uganda and the Sudan. In our type of business, it's mostly retaining existing customers happy. New ones come to us because of our reputation. Any potential customer will come to us eventually. It's our job to make sure he stays with us'.

Ojok was also concerned about prices. He and his salesmen seemed to do nothing but price increases. Instead of selling they were apologizing all the time. KPL had to find ways of holding the line on price. Standing up to the unions would be one way. Stopping the purchase of ever more expensive printing gadgets and machines would be another.

Richard Gateera had been able to produce for him some sales analyses by major types of business and by customer size (exhibits 1 and 2) but he had not yet had time to look at them in detail. They would give Kabanda an idea of the business.

Exhibit 1: Sales and Contribution Analysis By Major Types Of Business (2003/04) (Shillings millions)

	Sales	Contribution
Catalogues	593	403
Brochures/promotional material	336	218
Technical literature	315	198
Periodicals	196	157
Calendars	187	127
Company reports	175	131
Magazine printing	157	105
Miscellaneous	<u>417</u>	<u>243</u>
	<u>2,376</u>	<u>1,582</u>

Exhibit 2: Sales Analysis by Customer Purchase Size (2003/04)

Annual purchase size (shillings millions)	Number of customers
30+	5
20-29	21
10-19	48
5-9	83
0-4	<u>171</u>
	<u>328</u>

Exhibit 3: Eleven –year sales and profit growth

	Sales	Profit
	Shs million	Shs million
1993	1,286	82
1994	1,447	133
1995	1,608	125
1996	1,614	74
1997	1,699	136
1998	1,798	149
1999	1,914	145
2000	2,015	177
2001	2,076	137
2002	2,260	188
2003	2,376	180

Norman Kabanda had developed some views about KPL's operations and how they might be improved. He had, up to now, been employed in MUGOYA in a number of staff functions, mostly with a high analytical content. He was looking forward to trying out his ideas in a situation where he decided rather than advised. The next meeting of the management committee would be an ideal forum.

He had also gathered a lot of material about the industry and the economy, which he read to improve his understanding of the business (see Appendices). He had also noticed that as a result of the changes that had taken place in KPL, employees had lost sight of KPL's mission and the corporate objectives were also not well clarified. The dynamism in the industry also pointed to the fact that the current structure of KPL would never produce the results he hoped for. A new organisational strategy was needed especially to build effective team spirit and deal with the challenges of tomorrow. It was also going to be necessary to invest in the technology of the future, to ensure that all jobs, large or small could be handled with a minimum turnaround time. He could see that issue regarding personnel, marketing, production and investment would require critical decisions if the company wanted to survive. Besides, he was not going to spend all his life at KPL, when more exciting opportunities still existed in MUGOYA. He was here to prove himself and this he had to do immediately.

**Exhibit 4: Kasulu Printers Ltd,
Report of The Auditors to KPL shareholders for the year ended 31 October 2003**

We have audited the Financial Statements of Kasulu Printers Limited, for the period ended 31 October 2003 set out on pages 5 to 8.

Responsibility For The Financial Statements:

The Directors of the company are responsible for preparation of the financial statements. Our responsibility is to express an opinion on the financial statements, based on our audit.

Scope Of The Audit:

We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Comparatives

We were appointed as auditors during the year 2003, and we were not able to contact the previous auditors. The company adopted International Financial Reporting Standards, and as a result we were required to audit the 2002 comparatives. However, we were unable to reasonably assure ourselves of the amounts included in the 2002 accounts and these figures have not been included in our audit.

Stocktaking

We did not participate in the stocktaking at year-end and have relied on management's representations. The value of stock and work in progress included in the accounts is Shs. 113,672,000 and Shs. 264,922,000 respectively.

Debtors

Owing to the nature of the accounting records and the procedures required to verify debtors, we were unable to confirm the reasonableness of the value of debtors. The value of debtors included in the accounts is Shs 420,763,000.

Audit Opinion:

In our opinion, except for the effects of the omission and such adjustments as would be required by the matters discussed in the preceding two paragraphs, the financial statements give a true and fair view of the financial position and financial performance for Kasulu Printers Limited, for the year ended October 31, 2003.

**AB & Co.
CERTIFIED PUBLIC ACCOUNTANTS**

P. O. BOX 007, Kampala
October 31, 2003

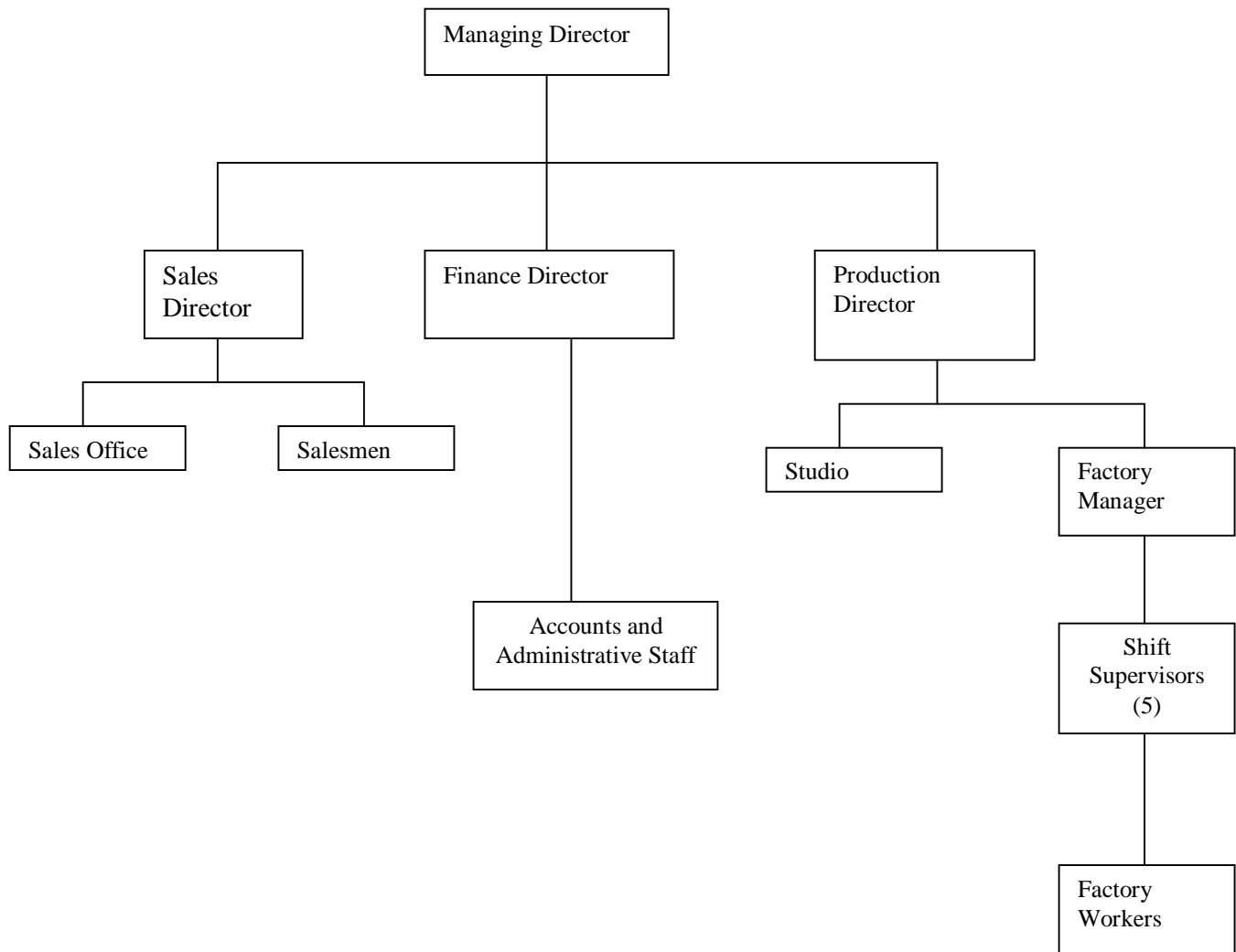
**Exhibit 5: Kasulu Printers Ltd,
Abridged Income Statement for the Year Ended 31,October 2003**

	Shillings '000s	Shillings '000s
Net sales	2,376,042	
Closing work in progress	46,470	
		2,422,512
Opening work in progress		59,761
Output		<u>2,362,751</u>
Cost of output:		
Production		
Factory wages	895,164	
Factory management	52,791	
Depreciation	126,742	
Other expenses	128,264	
	1,202,961	
Materials	682,946	
		<u>1,885,907</u>
Overhead costs:		
Selling		
Salaries and commission	46,254	
Expenses	37,942	
		84,196
Distribution and transport		34,177
Administration		
Management salaries	61,746	
Staff salaries	146,942	
Administrative expenses	58,060	
		178,902
		<u>2,183,182</u>
Operating profit		<u>179,569</u>

**Exhibit 6 Kasulu Printers Ltd,
Abridged Balance Sheet, as at 31, October 2003**

ASSETS	Shs '000
Non-Current Assets	
Plant, machinery, fixtures and fittings	893,301
Property	84,872
Vehicles	<u>36,942</u>
	1,015,115
Current assets	
Stocks	113,672
Work in progress	264,922
Debtors	420,763
Cash	<u>1,500</u>
	800,857
TOTAL ASSETS	<u>1,815,972</u>
CAPITAL AND LIABILITIES	
Capital and Reserves	
Ordinary shares	700,000
Reserves	<u>531,738</u>
	1,231,738
Non-Current Liabilities	
Loan capital	120,000
Deferred taxation	<u>42,191</u>
	162,191
Current liabilities	
Creditors	212,326
Bank overdraft	110,946
Corporation tax	62,342
Ordinary dividend	<u>36,429</u>
	422,043
TOTAL CAPITAL AND LIABILITIES	<u>1,815,972</u>

Exhibit 7: Current Organization Structure for KPL (Summarized)



Appendices

Appendix I

Colour Laser Printing Here at Last New Vision December 17, 2003

Kazinga Channel Office World (KCOW), the largest suppliers of printing equipment in Uganda yesterday unveiled the new MICOH printing press, which represents MICOH's state of the art drive for own office printing facilities. The new printery has the capability of producing 150 double-sided pages per minute with full colour and graphics. Industry reviewers said that they were amazed by the quality of the printery system compared to its cost, which was within reach of most medium sized offices. Besides its capacity to print double sided pages, it could also be configured to produce visiting cards, calendars and brochures. According to the analyst whom we spoke to on condition of anonymity, the industry is going to undergo massive changes as other equipment producers fight back.

Appendix II

Finance Bill Cuts Paper Taxes Monitor September 23, 2003

The Ministry of Finance yesterday belatedly released the long awaited Finance Bill for the fiscal year 2003/2004. There were several tax cuts, key of which were the reduction of import taxes on paper from 25% to 7%. According to the Ministry spokesman, taxes on paper were being cut to encourage the literacy drive that had been launched by government. It was hoped that the tax cut would make reading materials more accessible especially within the context of the recently enhanced Universal Primary Education drive. Industry experts, however, felt that this was too little too late as many donor organisations were not channelling resources to the provision of reading material but had now turned their attention to infrastructure which was key to the success of UPE.

Appendix III

Printing Firm Collapses

The Observer, January 15, 2004

It was announced yesterday in Kampala that Katwe Printers, the largest and oldest printery in the country had been taken over by receivers on behalf of Commercial Bank. The move on the large printery was necessitated by failure to service a loan that the company had taken for the refurbishment of its printing press. According to the company, the loan had been taken in anticipation of the large business possibilities that would be generated by the decentralization drive. Some of the directors of the company, who had been influential in the acquisition of the loan and were also closely connected with the national decentralization policy had, however, since left the company and it was suffering from competition resulting from a more efficient and open tendering system. The large printer had also lost several key staff as a result of the misunderstandings between the directors and this could have been instrumental in forcing the bank's hand to move on the company. Our efforts to get a comment from the Bank's spokesman, Mr Daniel Nsema were futile as his phone was switched off all day. Some industry watchers however say the industry is headed for tough times but companies that are versatile will survive.

Appendix IV

Action Aid says no to Tree Cutting in Brazil **New Vision, February 10, 2004**

Action Aid, the internationally renowned aid agency has decried the rampant deforestation in the Amazon Forest. The NGOs Chief of Mission in Sao Paulo noted that the rampant cutting of trees has put the indigenous tribes at risk and had also irretrievably damaged the ecosystem. Most of the trees that were being cut were naturally occurring soft wood species, which could not be replaced, and this had seriously damaged the habitat. Action Aid was also aware that most of the soft woods being cut were heading for the paper mills in Canada and Mexico and this was not acceptable especially in light of the noticeable rise in global temperatures. Action Aid was launching a programme to save the Amazon and its vast life forms by discouraging the use of natural paper. The NGO has already instituted a policy of using recycled paper and would not do business with companies that violated this value all over the world. Commentators noted that Action Aid's position was welcome but would mostly hurt printers in the third world where the use of recycled paper was not feasible.

Appendix V

Teams all the Rage

The Monitor, February 21, 2004

These are interesting times. Research findings about successful and failing firms recently released by Makerere University Business School show that firms that are succeeding have worked hard to eliminate the stuffy office environment. Out go the neckties, closed offices and ranks. In place of these, teams are becoming the craze. At BAT, one of the research sites, the Open Office concept has been introduced to tremendous effect. Work is done in a transparent environment, and all staff are on first name terms. Of course differences in remuneration remain, but these are clearly understood as emanating from competences and responsibility rather than rank. On the contrary, failing firms were found to be strongly steeped in the traditional closed office approach, formal wear and rules. Rules are good, says Professor Serwanga head of the research team, but they may hinder objective decision making by creating disempowered employees. Staff must have leeway to work and make decisions within the context of their responsibility levels. Otherwise even simple decisions are pushed up and top managers cannot concentrate on strategy.