

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

AFTERNOON SESSION MATERIAL

THURSDAY 23 JUNE 2005

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 compulsory case study questions.
3. The completed answers and any working papers, clearly labelled working papers must be handed in at the end of the afternoon session. Where working papers form part of your answer, ensure that they are appropriately cross referenced.
4. It is in your interest that you hand in all written materials prepared during the examination.
5. Please read further instructions on the answer book.

John Chwidi was also a member of the Management Forum, which is run by the British Council and was mainly the preserve of alumni of British Universities. While attending a talk on Customer relationship selling he met Harry Rugambo, who had worked as Corporate Affairs Manager for one of Uganda's Largest companies for a long time. He briefed him about the issues that you have just become privy to and asked him for advice.

Harry told him that he was setting up as an independent consultant in management. He had actually taken on some very smart CPAs who included Moses Baguma and you. He believed that your varied expertise would help John sort out the financial and management issues. He would present the case to them the following Monday at the weekly briefing and see what to do. The next Monday, Harry briefed his new colleagues and asked them to think about the case. They told him that this was their bread and butter but John Chwidi would have to write the terms of reference for the assignment and also appoint them formally to enable them access his company staff and records for a meaningful analysis.

Mr Rugambo phoned Chwidi immediately and they agreed that an appointment was necessary. John then wrote the following letter to Harry's company to authorise them start the consultancy.

The Managing Director,
Great Lakes Consulting Ltd,
P. O. Box 444000,
Mbale.

Sir,

**RE: PROVISION OF CONSULTANCY SERVICES FOR TORORO ROCK
PLASTICS LIMITED**

Refer to our discussions two weeks ago regarding the proposed investment into an additional production line and the existing state of affairs in our company and the industry. As you will no doubt recognise, there is a need for external assistance given the industrial tensions and sensitivity of the investment. We at Tororo Rock believe that as part of Eastern International, we are in a high-risk industry in which our earnings are subject to several environment and geo political vagaries. As such any decisions that we take need to be well considered. That said, we cannot delay the decision otherwise our competitors will make those decisions for us!

Accordingly, we are appointing your firm to assist us in evaluating the different business and interpersonal issues that may affect our performance and business well being. The specific issues on which we would seek your advice are as follows:

- Management relationships and values, and their likely effects on productivity.
- Choosing among alternative options for investment and the most optimal course of action.
- A comment on our financial statements in respect of extent of disclosure and our financial performance and position.
- Any other matters that you think may pose a potential problem to the realisation of our goals.

I have enclosed herewith, a copy of the projections for the proposed investment and attendant analysis, extracts of financial statements that I think are important for you to advise me and also comment on some of the issues raised.

We shall be grateful if you can call on our Mr. Paul Simiyu and my self for any assistance. In case you need to consult with any other members of staff, please do not hesitate to contact me.

Yours sincerely,

John Chwidi

John Chwidi
MANAGING DIRECTOR

Enc

As one of the appointed consultants you have reviewed the situation and you set out to write a report. In writing this report, you consult with Harry Rugambo, the Managing Director and you agree that your report must include a comment on the items given in (a) to (g) below. In case those items are missing, you add value to the client by preparing them.

Required:

Write a complete report to the Managing Director of Tororo Rock Plastics Limited in which you discuss the issues and advise him accordingly. Your report should cover the following issues:

- (a) A comment on the relationships between managers and how best to manage the simmering conflict.
- (b) Industry threats and potential arising out of the investment.
- (c) Preparation of financial statements and the responsibilities of the directors from the Corporate Governance point of view (Exhibit 1a: Statement of Directors Responsibilities).
- (d) Preparation of the income statement in relation to **IAS 12: Income Taxes** and **IAS 33: Earnings Per Share**. See notes to the financial statements relating to deferred tax. John Chwidi also needs to be enlightened about the implications and meaning of deferred tax liabilities and assets.
- (e) The financial statements do not have a Cash flow Statement attached to them, yet this is a critical input to decision making. Prepare a cash flow statement for Tororo Rock Plastics Limited in accordance with **IAS 7: Cash Flow Statements**. Also comment on the requirements of **IAS 1: Presentation of Financial Statements**, vis-à-vis the information presented. (Hint: refer to the extract on notes to the financial statements.)
- (f) Assess the financial position and performance of the company.
- (g) Comment on the investment alternatives facing Tororo Rock Plastics Limited and explain the advantages of the approach to project appraisal used, vis-à-vis other alternatives.