

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, 15 DECEMBER 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.

As a result of the situation that has arisen at GCBU, the bank hires you as consultant to review some of its previous decisions and also assess the current situational issues relating to the bank's activities. The Chairman writes to you a letter and request that you report in a period not exceeding one month on the following issues. You are required to write a consultancy report outlining each of the following matters and advise the Chairman of GCBU accordingly.

- (a) In assessing the business culture at GCBU in the pre and post 1988 era's what do you think are the major changes in the global environment and how have they been driving change at GCBU?
- (b) Distinguish, using examples from the case, between aspects of Corporate Governance and Corporate Social Responsibility. What are the ethical dilemmas faced in the case?
- (c) Comment on the pre-acquisition performance of GCBU. In what ways do you think the economic and political environment affected the performance of the bank? Is it good business sense for a bank to follow government programmes as it pursues its business?
- (d) In your review of the bank's performance, explain the meaning and show the appropriate treatment under IFRS of the following terms:
 - Deferred tax asset.
 - Extraordinary items.
- (e) Is the sale of the bank justified in light of its performance? What are the underlying arguments for privatisation of public enterprises?
- (f) What is the significance of the actions taken by the bank as shown in Exhibit III? What are the positive and negative outcomes that are expected from the change process?
- (g) Explain the relevance of an Audit Committee and how it should have aided in dealing with some of the issues raised in regard to financial reporting for GCBU.
- (h) Review the original organisation structure, pre-privatisation and explain the problems associated with that type of hierarchy. What recommendations on the appropriate structure could the bank have adopted? This requires you to propose an alternative organisation structure not exceeding seven hierarchical levels from the Executive Director to Support Staff.
- (i) Assess the viability of Remus Nyago's proposed investment plan for the new product. The details of the project cash flows are as follows:

GCBU is planning to introduce a farmers' insurance credit scheme as part of its CSR activities. The project has a projected life of 8 years in terms of GCBU's planning horizon. The project, to be set up in Uganda's rural

regions, qualifies for a one-time (as its starting) tax-free subsidy from the Government of Ugx. 200 million. Initial equipment cost will be Ugx. 1,400 million and additional equipment costing Ugx.10 million will be needed at the beginning of the third year. The project is to be managed within the GCBU branch network. At the end of 8 years, the original equipment will have no resale value, but the supplementary equipment can be sold for Ugx. 10 million. A working capital of Ugx. 150 million will be needed. The insurance sales volume over the eight year period have been forecast as follows:

<i>Year</i>	<i>Units per year</i>
1	800,000
2	1,200,000
3-5	3,000,000
6-8	2,000,000

A sale price of Ugx. 1000 per unit is expected and variable expenses will amount to 40% of sales revenue. Fixed cash operating costs will amount to Ugx.160 million per year. In addition, an extensive advertising campaign will be implemented, requiring annual outlays as follows:

<i>Year</i>	<i>Ugx. (in millions) per year</i>
1	300
2	150
3-5	100
6-8	40

The company is subject to 30% tax rate and considered 12% to be an appropriate after-tax cost of capital for this project. The company follows the straight-line method of depreciation. Should the project be accepted? Assume that the company has enough income from its existing products. GCBU uses a discount rate of 12% for internal investment appraisal.

- (j) Explain what Simon Kagulu means by cash is king and calculate the NPV and IRR of the project to which GCBU wants to extend credit. The income statement and projected cash flow for the project for which, Banjo Limited is seeking a loan are shown in Exhibits IV and V respectively. Do you believe the argument that cash is king or are there other critical considerations in accept / reject decisions that may come into play? In your assessment, is Banjo Limited in a position to implement the proposed project?