

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL FOUR

INTEGRATION OF KNOWLEDGE – PAPER 16

COMPREHENSIVE CASE STUDY QUESTIONS

AFTERNOON SESSION MATERIAL

THURSDAY, 11 DECEMBER 2008

INSTRUCTIONS TO CANDIDATES

1. Time allowed: 3 hours 30 minutes.
12.30 noon – 4.00 p.m. (3 hours 30 minutes).
2. The following pages contain a compulsory case study question carrying 100 marks.
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.

Additional information about M/S Alayo Technical Services Ltd.

The finance Department estimates the company's weighted average cost of capital to be 14%. This cost is a result of the near 50:50 debt to equity ratio.

There is a pending case in the High Court of Uganda (since January 2007) regarding Shs 400 million in penalties for poor performance on a road rehabilitation contract in Eastern Uganda. The ATS company lawyers had then estimated that there is only a 50% chance of winning the case, and a provision of 50% of the likely penalties had been made outright. URA also has issues with this provision.

The HCA boycotted the meeting in protest to what he termed Board arrogance, in reference to his struggle for increased staff benefits proposals that the Board has consistently rejected. One such proposal was that all heads of department be given fuelled and chauffeured cars (7 officers would benefit); another was the proposal that a non-contributory pension scheme be introduced for all middle and top management; another was that paid for holiday trips abroad be introduced for HODs and Branch managers (12 officers would benefit). He had indicated that the only reason profits appear to be growing is the selfishness of the directors and shareholders.

Recent dismissal of senior managers: Two senior managers were recently interdicted by the Board, for alleged in fighting that was seen as potentially damaging to ATS. The cause of the squabbles was based on who of the two was to succeed the MD, expected to be retiring in the next two years. The fighting centred on undermining each other often in public, fights that also dragged in the directors.

Significant off-balance sheet assets and liabilities were recently identified by an investment banker acting on behalf of a potential investor, that were not disclosed in the financial statements. The audit committee is independently investigating how this had always skipped the eyes of the internal and external auditors, and the potential effects on the expected financial results.

Pending issues before finalisation of the new SBP.

It is a few days to the targeted launch of the new SBP, and the Secretary to the SBP process has highlighted some issues considered vital and pending. The issues – covering operational and strategic ones, have been grouped and categorised for ease of sharing responsibility and follow up at senior management level.

The categories of these pending and critical issues are as follows:

A. Finance, accounting and tax issues

- A1. The likely tax liability from the issues raised by URA.
- A2. Relationship between rising prices, inventory valuation methods, and profitability.
- A3. The qualitative characteristics of financial statements as per IFRS.
- A4. Draft wording of the qualification paragraph in the audit opinion due to disagreement on inventory valuation methods.
- A5. The maximum interest rate at which financing of *Project A* may be accepted; and the maximum initial project cost for Project B

B. Management and Human resource issues

- B1. Key result areas of the Treasury manager or treasury department
- B2. Comment on the likely human resource implications at branches of separating retail and wholesale business units.
- B3. Draft at least four key outputs from a quality assurance department about to be created for ATS.
- B4. Brief description of the key areas of accounts receivable management that finance department should set guidelines on.
- B5. Whether the suggested additional staff benefits (by the HCA) should be improved and adopted or rejected outright.

C. Economic, business, political and legal environment

- C1. Factors may that influence the interest rate the ATS corporate bond may effectively attract.
- C2. A critique to (or an evaluation of) any four of the SBP assumptions highlighted.
- C3. Comment on how ATS could contribute to the achievement of any two of the Millennium Development Goals (MDGs).
- C4. A proposal on any three policy variables the government may make to promote investment into the construction industry.
- C5. The likely impact of the global financial crisis on financial management practices or policies of a company like ATS.

D. Corporate governance and other issues

- D1. Roles of remuneration committee of the Board
- D2. Implications of ATS continuing to serve any customer that comes by as described by the Head of Business Development.
- D3. Limitations of conglomerate diversification
- D4. Any limitations of an SBP entirely developed by management.
- D5. Challenges of strategic planning that management should be aware of as they finalise the SBP.
- D6. Suggest a mission statement for ATS's five year SBP period.

Required:

You are hired as a Technical Advisor to ATS. You are required to help senior management adequately understand or address the above pending or emerging issues before reconvening for the next and final strategic planning session.

Your advice is needed in a memo that should be copied to members of the Audit Committee of the Board – as most of them have heard about these issues in previous committee meetings.

Considering that the Board and senior management members are from different backgrounds, it may be important that you provide brief descriptions to terms that may be considered more common in accounting and finance.