

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, 19 JUNE 2008

INSTRUCTIONS TO CANDIDATES

1. Time allowed: 5 hours 30 minutes.
9.00 a.m.– 11.00 a.m. (2 hours): Planning.
11.00 a.m. – 12.00 noon. (1 hour): Break.
12.00 noon – 3.30 p.m. (3 hours 30 minutes): Writing.
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.

You have been engaged as the Dispatch Group '**Technical Adviser**'. Your mandate is to advise the different group stakeholders on issues of concern or affecting the group companies. An **inception¹ report** is expected from you immediately, addressing the current "hot" issues facing the group. It is to be based on the literature available, as well as your knowledge of the local market environment. (Knowledge of the local market was the main advantage you had compared to the expatriate you closely competed with for the job).

To enable you compile the report, additional information has been made available to you as follows:

Regarding The DPL:

- (i) Assume that there is no inflation.
- (ii) The DPL has other profitable business lines to utilize tax benefits, and that tax is paid one year in arrears.
- (iii) The DPL's cost of capital is 14%.

In regard to MarAps:

During the year to 30 September 2007:

- (i) All sales during the year were made on account.
- (ii) All purchases were made on account, comprising the trade payables.
- (iii) The 'depreciation' figure in the income statement includes Ushs 30 million amortisation of intangible assets.
- (iv) Purchase of additional equipment was effected by paying 50% in cash, and the balance was financed by issuance of ordinary shares.
- (v) To supplement its cash, 40,000 shares were issued at par.
- (vi) There were no costs involved in the retirement of long-term borrowings.
- (vii) Cash dividend of 45% of profit after tax were declared and paid during the year.

In regard to N-micro:

- (i) Each Regional Manager has a company driver not counted as staff of any branch/outlet.
- (ii) The current headquarters staff include the CEO, the COO, the Chief Finance Officer, the Chief Internal Auditor, and the Head of Business Development.
- (iii) Each headquarter staff has a Technical Assistant, a Secretary, and a Company Driver.

¹ For ease of reference, synonyms for 'inception' include: inauguration, beginning, initiation, and commencement.

The stakeholder groups and the key areas / 'hot' issues are as follows:

A. To the Board of Directors of the DPL:

- A1 Any four strategies to enhance shareholder value.
- A2 The viability of the expansion project - LGS.
- A3 Key variables in prolonging "a product's life cycle".
- A4 Likely problems of abruptly reducing "head count".
- A5 Methods you shall use to identify and prioritize risks faced by the company.

B. To the Board of Directors of the MarAps:

- B1 The meaning and relevance of the "consistency concept" in accounting.
- B2 Relevance of ROCE in financial analysis, and ways to improve it.
- B3 A critique on the attitudes and issues raised in the FC's memo.
- B4 Issues in 'debtor factoring' finance replacing the 'overdraft position'.
- B5 A cash flow statement in accordance with **IAS 7**: Cash Flow Statements, using the indirect method.

C. To the Board of Directors of the Ntaro micro:

- C1 Strategies to ensure that all or majority staff support 'change'.
- C2 The mechanics of "high volume – low margins" model.
- C3 Summary relationship between risk-averse methodology, bad debts, and profitability.
- C4 Difficulties they could meet while introducing a financial service / product like "debt factoring".
- C5 New products / services or product variations that can be developed in view of the opportunities available.
- C6 The projected staff number by the end of the SBP period.

D. To the group Chairman:

- D1 The relevance of "independence of mind, and independence in appearance".
- D2 Mechanisms to promote value addition from external auditors.
- D3 The meaning and purpose of "strategic planning".
- D4 Any opportunities evident in the Government policy statement which the group could reflect in their next strategic planning process.
- D5 The potential synergies for a group like the Dispatch.

Required:

Prepare the inception report, with the different sections addressed to the different stakeholder groups mentioned above (each to be given equal priority), focusing on what they consider 'hot issues'.

Where you consider a concept or term used to be 'technical', it would be beneficial to the relevant stakeholder if you provided a brief description.