

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

FRIDAY, 30 NOVEMBER 2012

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours 30 minutes**.
12.30 p.m. – 4.00 p.m. (3 hours 30 minutes).
2. The following pages contain a compulsory case study question carrying 100 marks.
3. Use the answer booklet provided for all your work, both morning and afternoon. Clearly label the workings and the final answer accordingly.

The foregoing matters notwithstanding, it has been further established that risk management at CSL has been adhoc, mainly because of lack of documented policies. No one is also directly responsible for management of any of the key risks, and yet CSL faces various risks in view of her nature of trade and the rapidly changing economic environment.

It has also emerged that petty squabbles at CSL may indeed be affecting senior management concentration on developing a strategy that would maintain the growth momentum and shield off apparent reductions in profitability trends. It is also clear that some figures and analyses need to be put together so that management and the BOD can take more informed decisions. Importantly, there is urgent need to always share information across relevant stakeholders when it becomes available.

For example, it has been established that a partial investment appraisal was done on the factory equipment replacement, but the information was never shared with management (of course partly because meetings are irregular). The appraisal results of the factory equipment replacement project (code named FERP) (excluding sensitivity analysis) were as follows:

	FERP Alt A (USD)	FERP Alt B (USD)
Estimated capital outlay	5,689,000	5,128,000
Annual cash flows (years 1 - 8)	1,358,000	1,120,000
Scrap value (due in 1 year after useful life)	456,000	616,000
Net present value	284,054	(87,241)
Internal rate of return	17.7%	15.4%
Other factors:		
Cost of capital	16.0%	16.0%
Portion of initial outlay depreciable	100.0%	100.0%
Working capital requirements per annum	10.0%	12.5%

The BOD chairman has organized an extraordinary general meeting in the next 2 days, at which he expects to wholesomely address many of the issues the company is facing. He is, therefore, shopping around for an independent analyst to provide him with the status of the company and how some emerging operational and strategic issues can best be handled. He has assured the

potential candidates for this job that they shall get maximum cooperation from management and board members; that they shall access all potential sources of relevant information; and that the report shall be treated with maximum confidentiality.

The chairman has generally grouped the matters and considerations, each with equal significance to him, as follows:

A. Operational considerations / plans

- A.1. Internal control elements around inventory management;
- A.2. Attracting more customer in face of competition and slow economy;
- A.3. Performance evaluation areas for the HR manager;
- A.4. Factors that would promote staff retention.

B. Financial aspects / considerations

- B.1. Factors that determine the strength of the GShs against the USD;
- B.2. Potential adjustments to the half-year CSL financial statements extracts;
- B.3. Potential adjustments to the income tax liability of the company;
- B.4. Considerations in setting retail prices for goods;
- B.5. The sensitivity of FERP-Alt A to the initial investment and cost of capital.

C. Strategic and social-economic aspects

- C.1. Factors that influence a firm's price earnings ratio;
- C.2. Factors that promote post-acquisition synergy;
- C.3. Five classes /types of risks faced by CSL;
- C.4. A five-point programme for corporate governance improvement at CSL;
- C.5. How the government could address rising inflation and unemployment.

You are required to provide the BOD Chairman with your situation assessment, key figures and facts, and the best way forward as variously required in sections (A) – (C).