

PP

Chartered
Accountant
SINGAPORE

Singapore CA Qualification Examination

INTEGRATIVE BUSINESS SOLUTIONS

Examination Day Documents

19 June 2023

INSTRUCTIONS TO CANDIDATES:

1. The time allowed for this examination paper is **4 hours and 30 minutes**. Please note, there is no separate prescribed reading time for this examination.
2. This is an open book examination. During the examination, you are allowed to use your laptop and any calculators that comply with the ACRA's regulations. Please note that watches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination.
3. During the examination, videos of you and your computer screen will be recorded for the purpose of ensuring examination integrity and you have consented to these recordings.

4. This examination paper and all video recordings are the property of ACRA.
5. This is a hypothetical case written exclusively for this examination. Names, characters, places and incidents used are imaginary or fictional. Any resemblance to actual events or locales or persons, living or dead, is entirely coincidental. This case is not to be cited without permission from the ACRA.

IMPORTANT NOTICE:

If you are not feeling well, please do not press “Start Assessment”. If you have started and leave during the exam, you would be deemed to have attempted the paper.

Case study report instructions

These Examination Day Documents (EDD) complete the case study scenario and set out the requirements of the report that you are required to write (**Exhibit 17**). You must combine your pre-reading and analysis of the Advance Information (AI), your other pre-examination research, and the new information in the EDD to plan the content and structure of your report, and then to write the report.

You are not allowed to print the Examination Day Documents.

Report format

Your report should follow the following format:

Requirement	eExam Qn. Number	Marks
Requirement 1 – An Executive Summary	2	10
Requirement 2 – Evaluation and strategic review	3, 4, 5, 6	43
Requirement 3 – Business options, financial reporting and tax	7, 8, 9, 10	27
Requirement 4 – Ethics and environmental, social and governance issues	11, 12, 13	20

You should clearly state any assumptions that you make and include any supporting data. Please put your appendices (if any) at the end of each question part.

Please note that **only your report commentary (including the assumptions made), appendices and workings entered in Cirrus on the day of the examination will be marked.**

Shiok Life Group

Advance Information (AI) – List of Exhibits

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Examination Day Documents (EDD) – List of Exhibits

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Note: Unless otherwise stated, all dollar amounts (\$) are Singapore dollars.

**Shiok Life Group management accounts for the years ended 31
March 2023 and 31 March 2022**

Statement of Profit and Loss for year ended 31 March

	Notes	2023 \$'000	2022 \$'000
<u>Shiok Makan</u>			
Revenue	1	104,968	95,723
Cost of sales:			
Food		(36,408)	(29,319)
Beverages		(4,074)	(2,966)
Staff costs		(20,160)	(18,822)
Cost of deliveries/ commission		(2,928)	(4,456)
Total cost of sales		(63,570)	(55,563)
Gross Profit		<u>41,398</u>	<u>40,160</u>
Other operating costs			
Amortisation of right of use asset		(3,709)	(3,547)
Utilities		(3,196)	(2,283)
Depreciation		(5,747)	(4,577)
Insurance		(644)	(625)
Marketing		(13,720)	(14,333)
Total other operating costs		(27,016)	(25,365)
Other operating income - government grants		240	120
Profit before interest and tax		<u>14,622</u>	<u>14,915</u>
<u>Shiok Shop</u>			
Rental income		644	368
Operating costs		(55)	(52)
Profit before interest and tax		<u>589</u>	<u>316</u>

Statement of Profit and Loss for year ended 31 March (continued)

Shiok Life Group (consolidated)

	2023	2022
	<i>\$'000</i>	<i>\$'000</i>
Group profit before interest and tax	15,211	15,231
Finance charges	<u>(6,923)</u>	<u>(6,423)</u>
Group profit before tax	8,288	8,808
Tax	<u>(1,409)</u>	<u>(1,497)</u>
Group profit after tax	6,879	7,311
Dividends	<u>-</u>	<u>-</u>
Transfer to retained profit	<u>6,879</u>	<u>7,311</u>

Shiok Life Group
Consolidated Statement of Financial Position as at 31 March

	Notes	2023 \$'000	2022 \$'000
Non-current assets			
Property, plant and equipment	2	63,970	49,567
Right of use assets	3	29,668	33,377
Software development		2,457	1,254
Investment properties	4	18,400	18,400
Total non-current assets		114,495	102,598
Current assets			
Inventory		634	485
Trade receivables		575	525
Cash		921	61
Total current assets		2,130	1,071
Total assets		116,625	103,669
Equity			
Share capital (ordinary \$1 shares)		1,000	1,000
Retained profits		47,200	40,321
Total equity		48,200	41,321
Current liabilities			
Trade payables		3,239	2,583
Amounts due under leases: current portion		2,530	2,530
Bank overdraft		8,114	75
Taxation		1,409	1,497
Total current liabilities		15,292	6,685
Long-term liabilities			
Loan from founder: interest free	5	1,000	1,000
Loan to acquire of Roll On	5	4,000	4,000
Bank loan to finance properties	5	18,400	18,400
Amounts due under leases		29,733	32,263
Long-term liabilities		53,133	55,663
Total equity and liabilities		116,625	103,669

Notes to the management accounts for the year ended 31 March

1. Segmental analysis of revenue: Shiok Makan

	2023	2022
	<i>\$'000</i>	<i>\$'000</i>
Shiok Dabao	9,662	9,566
Shiok Siu Dai	18,295	17,936
Shiok Zi Char	14,930	14,782
Wingaling	17,240	16,419
Roll On	18,065	16,423
Food delivery	26,776	20,597
Total revenue	<u>104,968</u>	<u>95,723</u>

2. Carrying value of property, plant and equipment

	2023	2022
	<i>\$'000</i>	<i>\$'000</i>
Land and buildings	6,938	7,136
Leasehold improvements	44,146	32,673
Fixtures, fittings and furniture	12,189	9,066
Motor vehicles	697	692
Total	<u>63,970</u>	<u>49,567</u>

Note: Property, plant and equipment is carried at cost less accumulated depreciation.

3. Right of use assets

Most of the restaurants operate in leased premises. Leases are typically entered into for periods of between 5 and 10 years. At the start of the lease agreement, a liability representing the present value of future lease payments is recognised. At the same time, a corresponding asset is recognised, described as right of use assets. This asset is amortised over the lease period.

Payments under lease agreements are separated into interest and repayment of lease obligations.

4. Investment properties

Investment properties are initially recorded at cost. The group has adopted the fair value method where any changes in value would be recognised in the statement of profit and loss. No depreciation is accounted for using this method. The renting out of the properties began on 1 December 2021.

5. Debt finance

There are four areas where ShioK Life Group utilise debts as part of its financing strategy.

- a) **Founder loan:** The loan from the founder was made by Nancy Wong to finance the acquisition of the Wingaling restaurant chain. It becomes repayable when agreed between Nancy Wong and the board. No interest is charged on the loan.
- b) **CFF Bank loan:** A bank loan of \$4 million was taken out during the year 2019 from CFF bank to finance the acquisition of Roll On. This loan carries interest at an annual rate of 10%. The loan is repayable on 1 April 2024. The loan is secured by a first fixed charge on the group's head office building.
- c) **HKMM Bank loan:** A further bank loan of \$18.4 million was taken out in December 2021 from HKMM Bank to finance the acquisition of the investment properties. This loan carries interest at an annual rate of 10% and is secured by a mortgage on the properties. It is repayable in December 2031.
- d) **Bank overdraft:** The overdraft facility of up to \$8 million provided by HKMM Bank was negotiated to assist the group during the recovery from the pandemic. Interest is charged at an annual rate of 15% per annum. It is secured by a floating charge over the assets of the Group. It is repayable on demand.

END OF EXHIBIT 12

Memorandum: Financial restructuring proposal update

To: Finance team, Shiok Life Group
From: Mrs Shermaine Lin, CFO
Subject: Project Phoenix
Date: 2 April 2023

Dear Shiok Life Group finance team,

Thank you for your work to date on Project Phoenix.

Project Phoenix,

Further to this, I have been working with the legal team and we have decided on the following draft terms of a financial restructuring proposal .

Proposed financial restructuring

- **Shareholders:** Shareholders to contribute a total of \$4 million cash in return for 2 million new ordinary shares.
- **HKMM Bank:** Convert the overdraft and loan into an 11% loan of \$23 million (with a first fixed charge over investment properties of Shiok Shop repayable on 1 April 2036), plus an issue of 2 million new ordinary shares in Shiok Life for no consideration.
- **CFF Bank:** Replace the current debt with an 11.5% loan secured on head office property, repayable on 1 April 2029. A \$50,000 arrangement fee would be paid for replacing this loan.
- **Founder loan:** Convert into 1 million new ordinary shares. These shares will have the same rights as existing shares.
- We do not believe an overdraft facility is likely to be required following the financial restructuring.

Working assumptions

We need to move fast, so please assume for these purposes the restructuring would be implemented on 1 August 2023

- Should the restructuring be accepted by all parties, I would anticipate the group would generate a profit before interest and tax of approximately \$9.325 million for the first full year after restructuring, reflecting the increasing costs of food and energy next year.
- Annual lease finance charges can be assumed to be \$3,450,000.
- For our purposes we will assume tax rate of 17%. We will assume profit before tax is the same as assessable profits.
- Profit after tax can be assumed to grow at 5% per year in money terms into perpetuity.
- The money (nominal) cost of equity for the group is assumed to be 25% per year.

Finance team work

Can you please:

- Calculate the value of the shares (using an earnings based approach) if the restructuring succeeds, based on the working assumptions above; and
- Compare what each stakeholder group would receive in value if restructuring occurs compared to liquidation. After considering financial and non-financial factors (such as risk, interest rates and security for example) would they be agreeable to the restructuring in your opinion?

In your evaluation, you are to consider each of the following groups of stakeholders separately:

- (i) The shareholders
- (ii) HKMM Bank
- (iii) CFF Bank
- (iv) The provider of the founder loan
- (v) Other creditors
- (vi) Shiok Group employees.

Please note:

I advise the following is used as the basis for assessing the likelihood of the agreement of each group of stakeholders (listed previously) to the restructuring proposal.

- The restructuring proposal is voluntary for each group of stakeholders to accept or not.
- Each group of stakeholders will collectively need to agree to the terms of the restructuring for it to proceed. This will be communicated by a nominated spokesperson for each group of stakeholders.
- If overall agreement to proceed cannot be reached then Shiok Life Group will be forced to cease trading, unless terms of the restructuring proposal are varied.

I have included, as Appendix 1, our analysis of what each stakeholder group receive if Shiok Life Group ceased trading and its assets were liquidated.

Thank you for your continued hard work on this project.

I look forward to receiving your thoughts in due course.

Kindest regards,

Shermaine

Appendix 1: Valuation of what each stakeholder group would get if Shiok Life Group goes into liquidation

Based on the assumptions in my memorandum of 10 October 2022 (Exhibit 10), and the consolidated statement of financial position as at 31 March 2023, if the group were to be liquidated, then the following statement shows the value of assets and how their value would be disbursed:

Shiok Life Group

Assets:	\$'000	\$'000
Investment properties (90% x \$18.4m)	16,560.00	
Less: HKMM property loan (secured up to property value)	(16,560.00)	Nil
Head office property	3,000.00	
Less: CFF Roll on loan (secured up to property value)	(3,000.00)	Nil
Remaining land and buildings (6,938-3,000) x 75%		2,953.50
Leasehold improvements (44,146 x 10%) x 50%		2,207.30
Fixtures, fittings, furniture and motor vehicles (12,189 + 697) x 60%		7,731.60
Right of use assets and software development		Nil
Inventory (634 x 50%)		317.00
Receivables (575 x 95%)		546.25
Cash		921.00
Realisable value of assets		<u>14,676.65</u>
Floating charge holder: HKMM bank overdraft		(8,114.00)
		<u>6,562.65</u>

Remaining unsecured creditors:	\$'000	\$'000
Remainder of HKMM property loan (18,400 – 16,560)		1,840.00
Remainder of CFF Roll on loan (4,000 - 3,000)		1,000.00
Amounts due under leases - exit charge ((2,530 + 29,733) x 25%)		8,065.75
Loan from founder		1,000.00
Trade payables		3,239.00
Taxation		1,409.00
The available distribution to unsecured creditors is 39.64 cents for each S1\$ owed by Shiok Life Group (6,562.65/16,553.75 = 39.64%)		<u>16,553.75</u>
Amount unrecovered by unsecured creditors		<u>(9,991.10)</u>

Summary of position on liquidation	Owed by Shiok Life Group	Recovered by creditors	% recovered (rounded)
Stakeholder Group	\$'000	\$'000	
HKMM Bank property loan	18,400.00	17,289.38	94%
HKMM Bank overdraft	8,114.00	8,114.00	100%
Founder loan	1,000.00	396.40	40%
CFF Bank Roll On loan	4,000.00	3,396.40	85%
Lease exit penalty	8,065.75	3,197.26	40%
Trade payables	3,239.00	1,283.94	40%
Taxation	1,409.00	558.53	40%
Ordinary shareholders			nil%

Note: All costs of liquidation have been ignored in this analysis. These would further reduce the cash available for distribution to the unsecured creditors, but can be ignored for the purpose of this preliminary evaluation.

END OF EXHIBIT 13

Email: Update on proposed new live chicken supplier

To: Shermaine Lin, CFO
From: Edward Nai, CEO
Subject: Proposed new live chicken supplier
Date: 2 March 2023

Hi Shermaine,

Since my last email, I have been in contact with a potential new supplier – Can Tho Poultry Supplies (CTPS) from Can Tho along the Mekong River, Vietnam.

I feel very fortunate to have found this potential poultry supplier. It does mean we will need to pay a higher price, but given the feedback from restaurants lately, I am prepared to consider this.

I have attached key information concerning proposed commercial arrangement with the new supplier as an appendix to this email. You can use this information to compare with the current commercial arrangements.

I would like you to evaluate this proposal at the next board meeting, to include a financial and non-financial assessment, and a recommendation of whether or not to proceed with this supply chain change. Can you please forward me a draft of your evaluation for us to discuss and refine together?

Best wishes,

Edward

Appendix: Key information regarding proposed new supplier of chicken

- In the current year (due to end on 31 March 2023), 50% of our group revenue comes from chicken dishes. A shortage of chicken has meant that we have lost potential revenue. I estimate that if we could get a reliable supply of chickens, our revenue from sales of chicken dishes would increase by 25% without reducing sales of other dishes.
- The variable costs of chicken dishes are currently 63% of revenues. 36% relates to the cost of the ingredients, and 27% is labour and other costs. Under the new proposal, the cost of ingredients would increase to 40% of revenues but the cost of labour and other variable costs would remain unchanged at 27% of revenue.
- We currently pay for ingredients one month after delivery. The new supplier will require advance payment for an entire year's supply as security for accepting Shoik Life Group as a new customer. This would, I imagine, need to be financed using our overdraft facility. Our overdraft incurs a cost of 15% per annum.
- We would need to agree to purchase all our chicken exclusively from CTPS for an initial period of five years. This means we may not use any other supplier from anywhere in the world, including Singapore, for our chicken.

END OF EXHIBIT 14

Email from Edward Nai, Shiok Life Group's CEO regarding proposed new sustainability initiatives

To: Shiok Life Group Finance Team
From: Edward Nai; Shiok Life Group CEO
Sent: 15 May 2023
Subject: New proposed sustainability initiatives

Dear Colleagues,

The Shiok Life Group has recently been subject to criticism in business newspapers and on social media that it has no credible sustainability plans and strategies.

The main criticism is that the focus of the Shiok Life Group Board has been predominantly on operations, expansion and more recently, managing the challenges of COVID-19, without sufficient consideration of sustainability and its impacts.

Now is the time to change this. The Board is concerned that a lack of sustainability focus is harming the company's brand, particularly in the twenty to thirty year-old demographic which marketing consultants think will become the highest spending age-group in the next ten years.

Some typical comments on social media from younger customers include:

“How do I know what I am eating at Shiok Life Group restaurants?”

“Are their staff paid a fair wage?”

The Board has decided to take action and commence a programme to implement new sustainability initiatives over the next three years once the Board has approved each sustainability initiative.

To get this started, the Board has requested ideas for new sustainability initiatives in the following three areas:

1. Restaurant employee welfare.
2. Sustainable consumption.
3. Minimise impact of supply-chain operations.

My operations team has compiled a preliminary list of three sustainability initiatives for further consideration.

1. Restaurant employee welfare: End temporary contracts.

The restaurant industry in many countries is characterised by the prevalence of temporary work contracts, or no contract at all. Demand for restaurant workers is often filled by employing people without a contract or on a short-term contract instead of providing permanent positions. This trend has been exacerbated by COVID-19 as the food and beverage industry is reluctant to commit to the expense of higher numbers of permanent employees.

Currently, Shiok Life Group uses temporary workers to fill some kitchen staff and restaurant server roles. Shiok Life Group restaurant managers can terminate temporary contracts at short notice when their services are no longer required.

Shiok Life Group proposes to end the use of uncontracted or short-term contract workers and change their employment status to permanent employees with exceptions only to cover emergencies, such as staff absence due to illness. Instead of temporary contracts, each new employee will be placed on a permanent contract which will have a probationary period of three months after which Shiok Life Group can evaluate.

This change means Shiok Life Group will not be able to terminate the employee with immediate effect and will have to provide each employee with other employment protections. A permanent contract will provide flexibility on working hours and other arrangement which will benefit both the employee and employer.

2. Sustainable consumption: Reduce restaurant energy consumption

Excessive energy consumption is a key contributor to climate change where non-renewable fuel sources such as gas for cooking, are used by the food and beverage industry to prepare food, to refrigerate and freeze supplies, and to light premises for employees and customers.

In response, ShioK Life Group will aim to reduce its energy consumption by implementing the following controls:

- Requiring kitchen staff to turn off gas rings and ovens when not in use, rather than have in continuous use during cooking hours; and
- Requiring restaurants to avoid excessive air-conditioning usage. In warm periods, restaurant air-conditioning units will be set to a temperature no lower than 20 degrees centigrade.

3. Minimise impact of supply-chain operations: Reduce food miles

The restaurant industry has a corporate social responsibility to do its part, together with other industries, to minimise the impact on the environment and on climate in all areas of its operations. Whilst people need to eat, and restaurants provide a social public service benefit, the restaurant industry can also adapt its operations to reduce its environmental footprint.

In response, ShioK Life Group propose to monitor food distribution miles for all its key suppliers. ShioK Life Group will request food suppliers to submit distance and method of transport for each product it purchases. ShioK Life Group will prioritise purchasing from producers of meat, vegetables, rice and noodles and other food supplies which are closest to Singapore, where possible and will only purchase food transit by air for essential ingredients, where there is no other viable option.

The Board has requested your assistance to evaluate each of the proposed initiatives by applying a risk, benefits, and cost analysis. All ideas and thoughts are welcome.

Edward

END OF EXHIBIT 15

Email from *Edward Nai – CEO of Shiok Life Group* to Jasmine Eng engaging Swan Chartered Accountants LLP to write a report on Shiok Life Group

To: Jasmine Eng <ENG_Jasmine@SwanCA.sg>
From: E.Nai@Shiok Life Grouplife.sg
Subject: Engaging Swan Chartered Accountants LLP to write a report on Shiok Life Group
Date: 2 June 2023

Dear Mrs Eng,

It was nice to meet you this morning.

As I mentioned during our discussions the group is in a precarious situation. We would like to seek your professional advice to identify and understand the complex strategic challenges that the Shiok Life Group is facing. I would like you to present your views and recommendations in a formal report to me by 30 June 2023.

The elements that I wish to see in the report are set out in the attachment to this email (Exhibit 17).

Kind regards

Mr E Nai

Chief Executive Officer

END OF EXHIBIT 16

Shiok Life Group: Requirements

Your formal report should comprise the following four elements:

**e-Exam
Question
Number**

Requirement 1: An executive summary

2

- (a) Write an executive summary to accompany your report. Your executive summary should allow Edward Nai to obtain a general understanding of what your report contains, including the key numbers. You should also include clearly stated assumptions, conclusions, and recommendations.

Note to candidates: While your executive summary should not contain any material or points that you have not discussed in the main body of the report, you are required to highlight any potential interactions between the individual standalone requirements below.

(Total: 10 marks)

**e-Exam
Question
Number**

Requirement 2: Evaluation and strategic review

3

(a) Evaluate the financial performance of Shiok Life Group for the year ended 31 March 2023 compared with 31 March 2022. Candidates are required to use available and relevant financial data for the Shiok Life Group.

(10 marks)

4

(b) Evaluate each of the strategic risks identified in Exhibit 3, and for each risk suggest one approach to managing the potential impacts which may occur due to that risk.

(8 marks)

5

(c) Evaluate the proposal from Can Tho Poultry Supplies (CTPS). In doing so, include a calculation of the annual financial impact that the proposal would deliver to the Shiok Life Group to support your analysis.

(15 marks)

6

(d) Discuss how customer data collected by Shiok Life Group's information systems could be used to improve:

(i) its marketing effectiveness and

(5 marks)

(ii) its overall financial performance.

(5 marks)

(Total: 43 marks)

**e-Exam
Question
Number**

Requirement 3: Business options, financial reporting and tax

7

- (a) Calculate:
- (i) The expected value of each ordinary share of Shiok Life Group on the basis that the restructuring proposal proceeds based on the CFO's 'working assumptions' about future earnings; and
 - (ii) The post-restructuring percentage of ordinary shares that would be held by each group of stakeholders.

(4 marks)

8

- (b) Compare what each stakeholder group would receive in value if restructuring occurs compared to liquidation. After considering other financial and non-financial factors (such as risk, interest rates and security for example) evaluate if each stakeholder group is likely to agree to the restructuring.

(11 marks)

9

- (c) Explain the financial reporting implications of the proposed new terms of the bank loan from CFF Bank, originally taken in 2019 to acquire Roll On. Calculations and journal entries are not required.

(6 marks)

10

- (d) Explain the tax implications of the proposed new terms for each loan and overdraft.

(6 marks)

(Total: 27 marks)

**e-Exam
Question
Number**

Requirement 4: Ethics and environmental, social and governance issues

11

(a) Explain why it is important for Shiok Life Group to address each of the following areas with new sustainability initiatives:

1. Restaurant employee welfare.
2. Sustainable restaurant energy consumption.
3. Minimise impact of restaurant supply-chain operations.

(3 marks)

12

(b) Evaluate the benefits, risks and costs of each of the three proposed sustainability initiatives and recommend whether the company should go ahead with each.

(14 marks)

13

(c) Discuss what further information would assist the Board in its decision to implement each sustainability initiative?

(3 marks)

(Total: 20 marks)

END OF EXHIBIT 17

END OF PAPER