

PP

Singapore CA Qualification Examination

INTEGRATIVE BUSINESS SOLUTIONS

Examination Day Documents

Friday, 18 September 2020

INSTRUCTIONS TO CANDIDATES:

1. This is an open book examination. During the examination, you are allowed to use your laptop and any calculators that comply with the SAC's regulations. Please note that watches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination.
2. This examination paper is the property of the Singapore Accountancy Commission.
3. 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 Singapore Accountancy Commission.

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 18**). 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.

The IB Examination will be open-book of 4 hours 30 minutes duration. Candidates are given an addition of 15 minutes reading time for this examination. The total duration of the exam is **4 hours 45 minutes**.

Report format

Requirements can be found in the Question Window of the respective Exemplify Questions.

Your report should follow the following format:

Requirement	Exemplify Qn. Number	Marks
Requirement 1 – An Executive Summary	2	10
Requirement 2 – Analysis of the logistics industry, value chain and performance analysis	3, 4, 5	35
Requirement 3 – Strategic options and funding arrangements	6, 7, 8	35
Requirement 4 – Ethical considerations and internal control improvements	9, 10	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 answers (including the wordings and assumptions made), appendices and workings entered in the Exemplify script on the day of the examination will be marked.**

Advance Information (AI) – List of Exhibits

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Exam Day Documents (EDD) – List of Exhibits

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Summary management accounts 2019 – 2020**NimbleVan Pte Ltd****Consolidated Statement of Profit or Loss**

	Notes	Year ended 31 March	
		2020	2019
		S\$000	S\$000
Revenue from deliveries	1,2	26,603	24,703
Commission for cash collections	3	1,705	1,126
Total revenue		28,308	25,829
Cost of sales	4	(15,653)	(13,335)
Gross Profit		12,655	12,494
Expenses			
IT Department staff costs		(570)	(544)
Commercial department staff costs		(1,677)	(1,667)
Corporate, finance department and strategy department staff costs		(2,920)	(2,905)
Depreciation of property		(769)	(786)
Depreciation of other assets		(1,548)	(919)
Other admin expenses		(1,415)	(1,291)
Operating expenses		(8,899)	(8,112)
Operating profit		3,756	4,382
Tax expense		-	-
Profit after tax		3,756	4,382

Notes to the management accounts:

1. Revenue from deliveries

	Year ended 31 March	
	2020	2019
	S\$000	S\$000
Pro plan – Same day delivery	7,748	6,843
Pro plan – Next day delivery	7,852	7,506
Pro plan – Standard delivery	6,819	8,305
Lite plan	4,184	2,049
Total revenue	<u>26,603</u>	<u>24,703</u>
Average prices		
	S\$	S\$
Pro plan – Same day delivery	15.0	15.5
Pro plan – Next day delivery	9.5	10.0
Pro plan – Standard delivery	3.0	3.3
Lite plan	<u>2.7</u>	<u>2.9</u>

2. Number of Parcels delivered

	Year ended 31 March	
	2020	2019
Total deliveries	5,165,597	4,415,040
Mix of parcel deliveries:		
Pro plan – same day delivery	10%	10%
Pro plan – next day delivery	16%	17%
Pro plan – standard delivery	44%	57%
Lite plan	<u>30%</u>	<u>16%</u>

3. Income from cash-on-delivery

	Year ended 31 March	
	2020	2019
% of parcels that are COD	22%	17%
Average value (S\$)	30	30
Value of COD parcels (S\$000)	34,093	22,517
NimbleVan commission at 5% (S\$000)	1,705	1,126

4. Cost of sales

	Year ended 31 March	
	2020	2019
	S\$ 000	S\$ 000
Fuel	197	152
Drivers staff costs	7,630	6,300
Operations staff costs	3,120	2,925
Commissions to local partners	1,546	1,224
Depreciation and maintenance of vans	2,758	2,261
Payments to freelance drivers	402	473
Total cost of sales	15,653	13,335

Commissions to local partners represents fees paid to the National Federated Locker Networks of S\$500,000 (2019: S\$500,000) plus commissions paid to local partners, who act as collection points. They are paid S\$0.50 (2019: S\$0.50) per parcel.

At 31 March 2020, there were 350 collection points available in Singapore, providing consignees with the convenience of selecting a collection point close to their home or place of work. The different types of collection points available were as follows:

NV's own retail stores	10
Nimblebox locker sites	20
National Federated Locker Network sites	100
Retail stores operated by partners	220
Total collection points available	350

Summary management accounts 2019-2020

Consolidated Statement of financial position as at 31 March

		31 March 2020	31 March 2019
	<i>Notes</i>	<i>S\$000</i>	<i>S\$000</i>
Non-current assets			
Head office & warehouse	5	17,288	18,000
Locker sites	6	975	932
Fleet of vans	7	7,025	6,312
Other plant & equipment	8	4,691	2,784
Goodwill	9	4,000	4,000
Total non-current assets		<u>33,979</u>	<u>32,028</u>
Current assets			
Trade receivables		3,737	3,776
Cash and short-term investments		10,484	8,086
Total current assets		<u>14,221</u>	<u>11,862</u>
Total Assets		<u><u>48,200</u></u>	<u><u>43,890</u></u>
Equity and liabilities			
Share Capital		55,720	55,720
Retained losses		(9,007)	(12,763)
Total equity		<u>46,713</u>	<u>42,957</u>
Current liabilities			
Trade payables		236	215
Cash collected from COD owed to clients		623	411
Prepaid packages for Lite plan		628	307
Total current liabilities		<u>1,487</u>	<u>933</u>
Total equity and liabilities		<u><u>48,200</u></u>	<u><u>43,890</u></u>

Notes to the management accounts:

5. Head office and warehouse

	2020	2019
	<i>S\$000</i>	<i>S\$000</i>
Cost of Head office & warehouse	20,000	20,000
Accumulated amortisation	(2,802)	(2,135)
Carrying value	17,198	17,865
Building improvements at carrying value	90	135
Total	<u>17,288</u>	<u>18,000</u>

The warehouse and head office building consist of the company's premises in Toh Guan Road, which was acquired for S\$20 million. The premises are depreciated over 30 years on a straight-line basis. Building improvements are depreciated at a rate of 33% on a reducing balance method.

6. Locker sites

	2020	2019
	<i>S\$000</i>	<i>S\$000</i>
Cost at 1 April	1,136	1,036
Accumulated depreciation at start of year	(104)	(52)
Depreciation expense for the year	(57)	(52)
Accumulated depreciation at 31 March	(161)	(104)
Carrying value at 31 March	<u>975</u>	<u>932</u>

Locker sites relate to the cost of the 20 Nimblebox self-service locker sites owned by NV. The costs of these are depreciated over twenty years using a straight-line method of depreciation. During the year 2020, S\$100,000 was invested in installing smart lockers.

7. Fleet of Vans

	2020	2019
	S\$000	S\$000
Cost at 1 April	10,800	8,850
Accumulated depreciation	(3,775)	(2,538)
Carrying value at 31 March	<u>7,025</u>	<u>6,312</u>
	2020	2019
Number of vans at start of year	130	110
Additions	60	80
Disposals	(30)	(60)
Number of vans at end of year	<u>160</u>	<u>130</u>
Average number of vans over the year	<u>145</u>	<u>120</u>

NV depreciates its fleet vans over four years on a straight-line basis.

8. Other plant and equipment

	2020	2019
	S\$000	S\$000
Cost at 1 April	6,510	5,510
Additions	3,500	3,000
Disposals	(688)	(2,000)
Cost at 31 March	<u>9,322</u>	<u>6,510</u>
<i>Accumulated depreciation</i>		
At 1 April	(3,726)	(3,530)
Charge for the year	(1,548)	(931)
On disposals	643	735
At 31 March	<u>(4,631)</u>	<u>(3,726)</u>
Net book value at 31 March	<u>4,691</u>	<u>2,784</u>

Other plant and equipment consists of machinery in the warehouse and computer equipment in the head office. These are depreciated over their useful lives.

9. Goodwill on acquisition of Nimblebox

In 2017, NV acquired all the shares in Nimblebox, a small manufacturer of drop-off lockers. Goodwill of S\$4 million was recognised on acquisition.

10. Other key performance indicators (KPIs)

NV monitors its performance using a small number of key performance indicators. Industry average benchmarks have been obtained from a benchmarking agency for 2020.

KEY PERFORMANCE INDICATORS	2020	2019	Industry Average
% of deliveries on time	93%	95%	90%
% of population within 0.5 km of a delivery point	90%	75%	60%
Number of parcels lost or damaged per 1,000 deliveries	5	4	4

11. Benchmarks

The following benchmarks have been obtained for the last mile logistics section of a large Singaporean logistics company:

Revenue growth (2019 – 2020)	5.00%
Increase in transaction volume (2019 – 2020)	35.00%
Operating profit margin	8.75%
Return on capital employed	28.30%

END OF EXHIBIT 13

Email from Tan Hui Lee, NV Pte Ltd's Finance Director, to NV Pte Ltd board of directors

Tan Hui Lee

From: Tan Hui Lee <lee@NV.sg>
Sent: 25 May 2020 9:03 pm
To: NV board of directors <All@NV.sg>
Subject: Expansion plans

Further to my e-mail of 16 March 2020, I now have more information about the proposed co-operation with Teleport Pte Ltd (Teleport).

TeleportDelivery (TD)'s business model is slightly different from ours. A significant number of TD's deliveries are performed by freelance drivers, and rather than receiving a fixed fee, these drivers keep the fee for the delivery, but pay a 5% commission to TD. The fee paid depends on the distance travelled for the delivery. TD also has hubs in 13 different locations across the countries in which it operates, with its own delivery vehicles and parcel sorting centres. It uses these for dealing with situations where one customer requires delivery of several packages to different address. This part of their business is more like NV's existing business model.

TD has around 30 million active users in the six countries and is expecting to increase this by 5% per year, in addition to gaining users from expanding into 10 new cities per year. The company made 7 million own parcel deliveries in the year ended 31 March 2020 and obtained commission on 85 million parcels that were delivered by freelance riders.

Option 1: Acquiring the Company

NV would acquire a controlling stake in TeleportDelivery (TD). Teleport believes that the fair value of 100% of the TD business is S\$41 million. This valuation is based on the

present value of the forecast free cash flows of TD, which I included in my previous e-mail. The valuation assumed that the acquisition would take place at 31 March 2020, although I now expect that it would take place on 1 August 2020. It assumes that the debt payable to Teleport of S\$15 million would be forgiven. This forecast goes up to the year ended 31 March 2023. After this, it has been assumed that free cash flows will grow at a rate of 5.5% per year in perpetuity. A discount rate of 14% has been used to discount the free cash flows, and this led to the valuation of S\$41 million. We would propose to use the proportionate method to measure non-controlling interests and the fair value of the identifiable net assets of TD can be assumed to be approximately S\$15m.

Teleport would like to continue to hold a stake in TD. They have therefore suggested that we could acquire either 100%, 75% or 51% of TD.

In terms of the valuation, we need to get some independent advice on whether TD is worth S\$41 million. Many tech companies in South East Asia have been valued by venture capital companies based on a multiple of their revenues, and this is often as high as 10 times current revenues. It is difficult to ascertain what would be a reasonable cost of capital, but for an unquoted private company, I have been informed that quite high discount rates are used – typically around 20%.

Option 2: Licencing the operations:

NV would operate the TD business under licence from Teleport, initially for a period from 1 August 2020 until 31 March 2023. NV would manage the TD business and would have the right to the profits of the business after making the following payments to TD:

- 2.5% commission on revenue from “own deliveries” up to revenues of S\$60 million per year, and 2% commission on revenue from own deliveries above S\$60 million.
- 10% of the commissions received on freelance deliveries.

Teleport will waive all commission up to 31 March 2021 under Option 2 to give NV the opportunity to try to return the company to profitability.

The cash flow projections for the years ended 31 March 2021 to 2023 that I provided in my e-mail of 16 March 2020 remain valid and should be used. For the period from 1

August 2020 to 31 March 2021 we can assume that the cash flows will be equal to 67% of the forecast cash flows for the full year.

It should be assumed that all cash flows relating to a particular financial year occur on the last day of March.

The following factors will discount future cashflows to 1 August 2020 and must be used to estimate the valuation as at 1 August 2020.

Discount factors to create a present value at 1 August 2020	14% discount rate	20% discount rate
Cashflows assumed to occur at 31 March 2021	0.916	0.885
Cashflows assumed to occur at 31 March 2022	0.803	0.738
Cashflows assumed to occur at 31 March 2023	0.705	0.615

TD have provided us with their financial statements for the past two years. These are consolidated financial statements which include all of TD's activities in the countries in which it is operating.

TD – Consolidated Statement of profit or loss for the year ended 31 March

	Year ended 31 March	
	2020	2019
	S\$000	S\$000
Revenue		
Fees from own deliveries	46,501	45,172
Commission on freelance deliveries	16,921	14,769
Total revenue	<u>63,422</u>	<u>59,941</u>
Direct costs		
Drivers staff costs	(24,570)	(23,400)
Operational workers' staff costs	(19,110)	(18,200)
Fuel costs	(2,657)	(2,581)
Depreciation – plant & equipment	(988)	(960)
Depreciation delivery vans	(9,412)	(9,440)
Total direct costs	<u>(56,737)</u>	<u>(54,581)</u>
Indirect costs		
Management staff costs	(2,363)	(2,250)
Commercial department staff costs	(5,040)	(4,000)
Accounting & finance staff costs	(5,985)	(5,700)
IT development	(500)	(500)
Rental of warehouses	(780)	(780)
Office costs	(515)	(450)
Total indirect costs	<u>(15,183)</u>	<u>(13,680)</u>
Operating loss for the year	<u><u>(8,498)</u></u>	<u><u>(8,320)</u></u>

TD Consolidated Statement of Financial Position as at 31 March

	2020	2019
	<i>S\$000</i>	<i>S\$000</i>
Non-current assets		
Plant & machinery	3,953	3,840
Delivery vans	15,600	23,400
Intangible assets – software	6,836	6,640
Total non-current assets	<u>26,389</u>	<u>33,880</u>
Current Assets		
Trade receivables	3,875	3,764
Cash in transit (from payment agencies)	827	809
Cash & Short-term investments	85	1,104
Total current assets	<u>4,787</u>	<u>5,677</u>
Total assets	<u><u>31,176</u></u>	<u><u>39,557</u></u>
Equity and liabilities		
Share capital	35,000	35,000
Retained losses	(19,748)	(11,250)
Total equity	<u>15,252</u>	<u>23,750</u>
Non-current liabilities		
Loan from Teleport	15,000	15,000
Current liabilities		
Payables	43	38
Owed to drivers	881	769
Total current liabilities	<u>924</u>	<u>807</u>
Total equity & liabilities	<u><u>31,176</u></u>	<u><u>39,557</u></u>

Note: The loan from Teleport is interest-free but would be forgiven by Teleport before acquisition.

Financing

If we decide to go for Option 1, we would need to consider how we can finance the acquisition. If we were to acquire 100% of TD, it would cost S\$41 million, S\$30.75 million if we acquire 75% or S\$20.91 million to acquire 51% of the company.

We could use some of our own cash towards the cost of acquisition. We will have S\$10.5 million in our bank on 1 August. This would not be enough to make the acquisitions, but it could be used to reduce the finance required from other sources.

We could finance the investment by an issue of S\$ bonds on the Singapore Bond Market. Given our limited history, we would have to pay a yield of 10% on any bonds that we issue. We would also need to apply for a listing on the Singapore Bond Market, so would need to hire the expertise of an investment bank to help us prepare a prospectus and underwrite the issue. If we are considering bonds, we also consider issuing medium term notes (MTN) and registering an MTN programme on the debt markets.

Alternatively, we could apply for a bank loan. The interest on the bank loan would be similar – around 10% per annum. We would be looking for a loan for 10 years.

Private equity and additional venture capital funding are also potential sources that we should consider.

I would suggest that we obtain some external advice on the advantages and disadvantages of these options, as well as on how to finance the acquisition, if that is the option we decide on.

Regards

Tan Hui Lee

Finance Director, NV Pte Ltd

END OF EXHIBIT 14

Email from Alicia Chong, NV Pte Ltd's Operations Director to NV Pte Ltd board of directors

CHONG, Alicia

From: CHONG Alicia <CHONGA@NV.sg>
Sent: 29 May 2020 8:14 pm
To: All <board@NV.sg>
Subject: Internal controls

I am writing to bring to the board's attention two recent failings which I feel call into question the integrity of NV's internal control processes.

Theft of cash

All cash on delivery (COD) paid by consignees upon receipt of their delivery is collected by the designated NV delivery driver and kept in a safe at the warehouse. A digital confirmation of the amount of the payment collected is automatically emailed to the consignee by the delivery driver using the NimbleDriver app. This provides NV with a digital record of all cash receipts. At the end of every day all cash receipts are collected by a designated member of the finance department who is responsible for banking the cash with NV's bank, and digitally transferring the funds received to the relevant e-tailer at the end of every week less the commission charged by NV.

Last week it came to light that an NV employed delivery driver had on several occasions stolen a significant amount of cash that they had been collecting on behalf of NV as part of the COD scheme. The theft was made possible as the driver had been colluding with the designated member of staff responsible for banking the funds. Upon further investigation it turned out that no one in the finance department was reconciling the cash receipts banked to the digital records detailing the monies received. The crime was only uncovered when the designated staff member responsible for banking the funds was on medical leave for two days, and a colleague in the finance department took over the daily

banking. It was at this point that the theft was discovered as the balance on the digital records of cash received was greater than the value of the cash stored in the safe.

Traffic accident

On 24 May 2020, Mr Tham Chee Koong, one of NV's reserve-fleet drivers caused a serious road traffic accident whilst delivering a parcel. The accident injured a pedestrian. Mr Tham was riding a Power Assisted Bike (PAB), which he had modified to travel at faster speeds. The modifications meant that the PAB weighed more than the 20kg limit permitted by the Active Mobility Act. Mr Tham and the pedestrian both received hospital treatment and were discharged a few days later. The police believed that the injuries sustained by the pedestrian were more serious, due to the excessive weight of the PAB. Although this was the fault of the freelance driver, it was not good for the image of NV.

It is NV company policy that all reserve-fleet drivers that ride PABs are required to declare that their device is registered with the Land and Transport Authority (LTA) and complies with the LTA's regulations for use on public paths before they are permitted to make deliveries. Freelance drivers make these declarations by submitting a completed return which are collected and reviewed by the fleet team.

On this occasion, it appeared that no one in NV's fleet team identified that the driver had failed to declare whether their PAB was registered or complied with LTA regulations. What made this situation worse was that Mr Tham was still allowed to work on behalf of NV. I have attached a copy of the application return that the fleet team received from the freelancer (**Exhibit 16**). This oversight would appear to have been caused by a sudden spike in demand for deliveries, which required the hiring of some freelancers at short notice that NV had not used before.

Many thanks,

Alicia Chong

Operations Director, NV Pte Ltd

END OF EXHIBIT 15

RESERVE-FLEET DRIVER APPLICATION DECLARATION

SECTION 1: Personal details

Title:	Mr.
First name:	Chee Koong
Surname:	Tham
D.O.B:	21/11/1983
Address:	Thomson View Condo, 7a Bright Hill Drive, Singapore 579599
Date of application:	7 th May 2020

SECTION 2: Vehicle details

Type of vehicle to be used when operating as a reserve-fleet driver on behalf of NimbleVan Pte Ltd [*Please specify with a x*]:

Bicycle e.g. pedal powered	
Power-Assisted Bicycle (PABs) e.g. Electric Bicycle	X
Personal Mobility Devices (PMDs) e.g. Electric Scooters and Kick Scooters etc	
Car or van	
Other (please provide details).....	

SECTION 3: Declaration

[Please specify your acceptance to the following terms with an x in the applicable boxes]

I acknowledge and accept that it is my responsibility to comply with all provisions set out in the Active Mobility Act (2017).	
I acknowledge and accept that the vehicle specified in Section 2 of the above application complies with all provisions set out in the Active Mobility Act (2017) and is registered with the Land Transport Authority.	
If applicable in the event that you specified that the vehicle to be used in Section 2 was a car or van or 'other', please complete this box to confirm that the vehicle has the required level of commercial vehicle insurance as set out by the Motor Vehicles (Third-Party Risks and Compensation) Act.	
I acknowledge and accept that NimbleVan Pte Ltd reserves the right to my removal from the company's approved pool of reserve-fleet personnel at any time.	X
I acknowledge and accept that it is my responsibility to notify NimbleVan Pte Ltd of any changes to the details provided in this declaration. Failure to provide complete and accurate information at any point will lead to the immediate termination of eligibility to provide services to NimbleVan Pte Ltd.	X
I acknowledge and understand that in no way does the provision of delivery services as a reserve-fleet driver create an obligation for NimbleVan Pte Ltd to indemnify me for any losses or costs incurred. Pay-per-parcel and all other terms and conditions can be found on the 'Work with us' section of the NimbleVan Pte Ltd website.	X

By signing this form, you acknowledge and accept that all details provided are true and correct at 7th May 2020:

Signed: *Chee Keong Tham*

FOR INTERNAL USE ONLY:

In accordance with NimbleVan Pte Ltd policy the declaration received from the applicant specified on this return has been reviewed and is:

	<i>[Please specify with a x]</i>
Approved for hire by the company	X
Not approved for hire by the company	

Name of reviewer:	Lui Tuck Balakrishnan
Position:	Fleet team supervisor
Date:	7 th May 2020

END OF EXHIBIT 16

Email from Shaun Tan to Jasmine Eng engaging Swan Chartered Accountants LLP to write a report on NV Pte Ltd

Shaun Tan

From: Shaun Tan <Tan@NV.sg>
Sent: 2 June 2020 01:21 pm
To: Jasmine Eng <ENG_Jasmine@SwanCA.sg>
Subject: Engaging Swan Chartered Accountants LLP to write a report on NV Pte Ltd

Dear Mrs Eng,

It was nice to meet you this morning.

As I mentioned during our discussions, I have been heavily involved in the development of the company up until this point. We would like to seek your professional advice to identify and understand the complex strategic challenges that NV and the wider last-mile logistics industry are facing. Mindful of this, I would like your firm's input on a range of matters. I would like you to present your views and recommendations in a formal report to me by 31 August 2020.

The elements that I wish to see in the report are set out in the attachment to this email (**Exhibit 18**).

END OF EXHIBIT 17

NimbleVan Pte Ltd: the requirements

You are a Manager working at Swan Chartered Accountants LLP (Swan). You have been tasked by Jasmine Eng, Vice President of Business Solutions at Swan to write a report for her review prior to submission to Shaun Tan, the Chief Executive Officer of NimbleVan Pte Ltd.

Your formal report should comprise the following four elements:

**Exemplify
Question
Number**

2

Requirement 1: An Executive Summary

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

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.

(10 marks)

(Total: 10 marks)

**Exemplify
Question
Number**

**Requirement 2: Evolution of the logistics industry, value chain
and performance analysis**

3

- (a) Analyse the key factors that affect the last mile logistics industry in Singapore, using the PESTEL model.

(8 marks)

4

- (b) Analyse NV's value chain and identify its key value drivers, using the Porter's value chain model.

(12 marks)

5

- (c) Evaluate and analyse the performance of NV for year ended 31 March 2020. Your answer should consider any relevant internal and external factors which may have impacted the company's performance.

Note for part (c): 5 marks will be awarded for the calculation of appropriate ratios and 10 marks for discussion of the performance of NV.

(15 marks)

(Total: 35 marks)

**Exemplify
Question
Number**

6

Requirement 3: Strategic options and funding arrangements

(a) **Exhibits 7 and 14** outline two strategic options proposed by Teleport, the acquisition of TeleportDelivery (TD) or entering into a licencing agreement to operate the TD service.

- (i) Advise the directors of NV on whether S\$41 million is a fair value for TD by estimating its value as at 1 August 2020.

(5 marks)

Note: Candidates are required to use the discount factors provided on **Exhibit 14** without adjustment and estimate TD's valuation as at 1 August 2020.

- (ii) Discuss the advantages and disadvantages of the two options proposed by Teleport.

(10 marks)

**Exemplify
Question
Number**

Requirement 3: Strategic options and funding arrangements

7

- (b) In your report, using the information in **Exhibits 7 and 14**,
- (i) Calculate the financial impact that the two options would have on NV's free cash flows for 2021 to 2023 if they were implemented. **Show workings to support your answer.**

(5 marks)

- (ii) With supporting calculations, where appropriate, explain the financial reporting and tax implications for NV in the event that it enters into **Option 1** proposed by Teleport.

(5 marks)

8

- (c) Discuss the benefits and costs associated with the different methods of financing Option 1 set out in **Exhibit 14**. You should also explain how NV would secure the different types of funding specified. **Show relevant financial ratios for the year 2021 to support your answer.** You should also include clearly stated assumptions.

(10 marks)

(Total: 35 marks)

**Exemplify
Question
Number**

Requirement 4: Ethical considerations and internal control improvements

9

- (a) Discuss the ethical considerations and other issues described in **Exhibit 11** in relation to NV's use and treatment of freelance reserve-fleet drivers.

(10 marks)

10

- (b) Critically analyse the internal control weaknesses raised by Alicia Chong, NV's Operations Director in **Exhibit 15** and the information contained in **Exhibit 16**. In light of your analysis, make recommendations for improvements where appropriate.

(10 marks)

(Total: 20 marks)

END OF EXHIBIT 18

END OF PAPER