

## Singapore CA Qualification Examination

14 December 2018

### INTEGRATIVE BUSINESS SOLUTIONS

## EXAMINATION DAY DOCUMENTS

#### 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 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 the purpose of 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 21**). 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 time is **four hours and thirty minutes**. Please note, there is no separate prescribed reading time for this examination.

### Report format

Your report should follow the following format:

Requirement	Exemplify Question Number	Marks
1 – An Executive Summary	1	15
2 – Financial performance and controls	2, 3	30
3 – Realising a return on investment	4, 5, 6	35
4 – Strengthening the competitive position	7	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 workings 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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2	Bean Friends Forever: start-up funding	AI-8
3	The first years in business, 2012-2014	AI-11
4	Subsequent years: growing the business	AI-16
5	Further expansion in bakery outlets	AI-19
6	Extract from the minutes of a meeting of the directors of Bean Friends Forever Pte Ltd, held on 6 September 2016	AI-21
7	Human resource challenges	AI-24
8	Control risks	AI-26
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## Examination Day Documents (EDD) – List of Exhibits

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**Continuing financial performance**

**MEMO**

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**From:** Maureen Leung  
**Sent:** 21 November 2018  
**To:** Sunny Kumar, Timmy Kumar, and Yap Ka Kui  
**Subject:** Profitability

As can be seen from the figures in the attachment, the company's profitability for the first six months of the financial year is disappointing. I would expect the company to be making more profit as sales revenues increase, but this does not seem to be happening.

This is something that we need to consider as a matter of some urgency. Although we hold a considerable amount of cash, I do not see that we can pursue plans for rapid expansion of the business unless we are confident that growth will bring in higher profits, and the cost of any further expansion will probably need to be financed in part by borrowing. I had been hoping that we would not need to borrow.

I propose that we should ask for professional advice from a firm of financial experts.

Yours in beans,  
*Maureen*

*Attachment*

**Bean Friends Forever Pte Ltd  
Summary income statement for the six months ended 30 September 2018**

	<b>S\$000</b>
Revenue	1,762
Supplies and ingredients	528
Rental costs	398
Labour costs	614
Utilities	38
Other costs ^	151
	<u>1,729</u>
<b>Profit before taxation</b>	<b><u>33</u></b>

^ Other costs include: administration, marketing, depreciation, and sundry expenses.

**END OF EXHIBIT 15**

**Company profitability**

**Timmy Kumar**

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**From:** Timmy Kumar<TK@beanff.sg>  
**Sent:** 22 November 2018 01:02 am  
**To:** Sunny Kumar<SK@beanff.sg>; Maureen Leung<ML@beanff.sg>; Yap Ka Kui<YKK@beanff.sg>  
**Subject:** Company profitability

I have been thinking about Maureen's memo about profitability. I agree that it is a big problem for us. We need to find ways of reducing costs or increasing revenues.

One thought I have had is about leasing equipment. Currently, BFF purchases all its replacement equipment. However, we could switch to a policy of leasing equipment rather than buying it. This might save BFF some money.

And as you know, I worry about materials costs. We should be able to find ways of reducing costs – by cutting waste and other losses, and by putting pressure on our suppliers to reduce their prices.

I agree with Maureen, that we probably need to get professional advice about the company's profitability.

**END OF EXHIBIT 16**

## WhatsApp message to Maureen Leung from Yap Ka Kui

1 December 2018



concept café memo.pdf



13:24 ✓✓

Re: Timmy's memo. I think we should ask for some advice from accounting or financial experts before we open a BFF concept café. I appreciate that we need to do this quickly.

13:25 ✓✓

## MEMO

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**From:** Timmy  
**Sent:** 30 November 2018  
**To:** Maureen, Sunny, and Yap Ka Kui  
**Subject:** **Proposal to open a Bean Friends Forever concept café**

I have identified a location for the first concept BFF café. We need to make an early decision by the middle of January at the latest, about whether to go ahead and acquire it.

I know we originally wanted to locate our first café near a busy CBD MRT station to attract morning commuters seeking a quick, cheap, yet healthy breakfast on their way to work. However, rental prices are simply too high for space around the CBD area, so I switched to looking at residential areas, where rental prices are cheaper. I think that we should be able to catch residents for breakfast on their way to work and dinner on their way home.

I have found a wheelchair-accessible ground floor property along Thomson Road near Novena MRT station, which as you know is a thriving residential area. This location for a café would also benefit from the workers from nearby office buildings looking for a healthy and affordable lunch, as well as the weekend crowd.

The Accounting and Corporate Regulatory Authority (ACRA) recently relocated its customer service counters to Revenue House, and the Inland Revenue Authority of Singapore (IRAS), SME Centre, and CorpPass services are also located there so this should draw in more passers-by. People from outside of the area will see our café and hopefully come back to try.

The unit is quite spacious and is currently empty, so no takeover fee is necessary. Large floor-to-ceiling windows and a wide frontage let in ample natural light, creating an inviting atmosphere for diners on the move. It has convenient private restrooms, as well as outdoor space to put tables and chairs to emulate that old-fashioned *kopitiam* atmosphere. It runs on a 60 kVA (Three Phase) electricity supply and there is hourly parking and a loading bay available nearby. Another big plus point is that there is no need to apply to the Urban Redevelopment Authority Singapore for Change of Use Approval as the premises was used previously as a restaurant.

I estimate that it will cost about S\$160,000 to equip and fit out the premises to the required standard. The equipment and fitout costs would be eligible for capital allowances and most probably could be claimed in full against Year 1 taxable profits, saving around S\$27,200 in tax payable in the first year. Marketing costs will be about S\$60,000 in total in the first year. Most of our sales and marketing efforts would go into branding the café and re-vamping our website and pages on social media.

#### *Rent*

Rent is S\$6,000 per month for a two-year lease, with a rent-rise cap for two years after that, but we would have to pay the landlord a 6-month deposit of S\$36,000.

#### *Pricing*

I propose that we should maintain the same price point on coffee, baked goods, and loaves, that we charge in our bakeries. I anticipate that the gross profit margin on sales will be the same as for our bakeries, even after factoring in the cost of providing table service.



We should be able to operate the café with a rostered workforce of just four full-time employees, supplemented by part-time and occasional workers. In the first year, I forecast sales revenue of S\$800,000. If we need to supplement the café's income, we could generate alternative revenue by getting Sunny to host baking classes and running private events on weekday evenings. I am confident that the estimated revenue of S\$800,000 in the first year is realistic, given that our bakery outlets are earning revenue in excess of S\$600,000 per year.

The café would attract a different type of customer from the bakery outlets. Customers would spend time in the café and spend more money, whereas in our outlets, customers buy what they want and leave immediately. A well-designed and operated café will reinforce the BFF brand and help the business to grow through diversification, but into new market areas that are not totally unknown to us. I have made some estimates of cost and profits in the first two years of café operations.

	Year 1		Year 2	
	S\$	S\$	S\$	S\$
Revenue		800,000		840,000
Initial marketing *	30,000		-	
Supplies and ingredients	200,000		210,000	
Rental costs	72,000		72,000	
Labour **	225,000		265,000	
Utilities	20,000		25,000	
Other costs ^	100,000		105,000	
Total costs		647,000		677,000
<b>Profit before taxation</b>		<b>153,000</b>		<b>163,000</b>

\* Initial marketing budget S\$60,000 less Enterprise Development Grant of S\$30,000.

\*\* Net of government wage subsidies (WorkPro-Job Redesign (Rider)).

^ Other costs includes: administration, ongoing marketing, depreciation of S\$16,000, and sundry expenses.

*Funding*

I have investigated available funding and grants. I am confident that we can secure an Enterprise Development Grant of S\$30,000 towards branding and marketing for the café. BFF would also be eligible for the WorkPro-Job Redesign (Rider) as we shall be hiring two mature employees to work in the café, who are Singapore citizens over the age of 60. I anticipate that BFF will receive S\$20,000 for each worker, which will go a long way towards defraying first-year costs.

Our investment can be expected to pay back within two years! So, do we go ahead and open a concept café, hopefully the first of several in the BFF chain? Let me know what you think.

Cheers

*Timmy*

**END OF EXHIBIT 17**

**Staff shortages and food wastage**

**Timmy Kumar**

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**From:** Timmy Kumar<TK@beanff.sg>  
**Sent:** 3 December 2018 11:59 pm  
**To:** Sunny Kumar<SK@beanff.sg>; Maureen Leung<ML@beanff.sg>  
**Subject:** Staff shortages and food wastage

Dear both,

*Staff shortages*

I am very concerned about staffing problems in our bakeries, it's a perennial problem. Due to the resignation of one staff member and absence through illness of another (the baker), we had to close one of our bakeries for a half day last week. We could not get temporary staff at short notice to keep the bakery open.

Recruitment is a continual problem, and the current rate of staff turnover means that we need to keep on recruiting and training new staff, just to maintain our existing small chain of outlets. Unless we can resolve this problem, I do not see how BFF can expect to expand its network of bakeries or open concept cafés.

I think we need to consider improving the incentives for staff to remain with us for longer. Higher wages or salaries are an obvious solution, but I am not sure that we can afford to pay our employees more than we are doing already.

*Food wastage*

I am also concerned about the rising level of unsold products at our bakeries. The problem may be that our products are losing their attractiveness to customers, but I don't think that this is the case. After all, total sales revenues are increasing.

My concerns about the risk of theft and fraud have not gone away. It is time that we address the problem and take measures to reduce the costs of unsold products and food wastage that we are experiencing.

In particular, I think that we should consider control measures to reduce the risk of fraud. There is a risk that staff at one or more of our bakeries are taking products and selling them privately for personal profit.

Cheers

*Timmy*

**END OF EXHIBIT 18**

**Extract from the minutes of a special meeting of the directors and shareholders of Bean Friends Forever Pte Ltd, held on 4 December 2018 in relation to an Indicative Offer**

**Present**

Sundaresh (Sunny) Kumar (Chair) [SK]      Timeer (Timmy) Kumar [TK]  
Maureen Leung [ML]                                  Yap Ka Kui [YKK]

*Indicative Offer*

The meeting was held at short notice, at the request of SK, who said that he had met with Shamila Binte Iqbal, the CEO of Urban Healthy Trends Ltd (UHT) a locally incorporated unlisted public company with wholesale operations (mostly ultra-high temperature packaged beverages and Asian-inspired snacks) throughout South East Asia and the Oceania, with its head office and dedicated research and development (R&D) facility in Singapore. As a local home-grown company, it has long been an employer of choice for Singaporeans and is proud of its “Superbrands status”.

Shamila told him that the Board of her company is looking for ways to expand its business and is considering some expansion through acquisitions and is also seeking to diversify.

BFF is an attractive business, because of its strong reputation and potential for development. SK had explained the expansion strategies of BFF, with plans for a chain of concept cafés and a central kitchen with wholesale distribution of baked products.

Shamila had informed him that any proposal by her company to acquire the share capital of BFF would need the full support of BFF’s directors and shareholders. She therefore wanted to know whether we would be willing to give serious consideration to an offer from UHT to acquire 100% of BFF’s share capital at a price in the region of S\$1,000,000. The price would be paid half in cash and half in shares of UHT. Shamila

further informed SK that UHT has always been profitable and paying tax in Singapore throughout its 30-year history.

If this offer might be of interest, Shamila would discuss the matter with her Board, with a view to making a formal offer within the next few weeks, with the intention of completing the deal before the end of calendar year 2019.

YKK reminded the other shareholders that he was now looking for a return on his investment in the company, and a fair offer from UHT would be of great interest to him.

**END OF EXHIBIT 19**

**Benchmark Chartered Accountants LLP: correspondence file**

**Sunny Kumar**

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**From:** Sunny Kumar<SK@beanff.sg>  
**Sent:** 13 December 2018 11.35 am  
**To:** Mdm Melinda Yacob<YACOB\_Melinda@BenchmarkCA.sg>  
**Subject:** Bean Friends Forever Pte Ltd

Dear Mdm Melinda,

As agreed when we met yesterday, I am sending you a collection of relevant documents that deal with a number of issues relating to BFF, which I would like you to investigate and submit your findings and advice in a single report to the Board of BFF.

The issues that the Board of BFF would like you to report on include:

- An assessment of BFF's current controls and recent past financial performance;
- How best to realise/structure a return on investment, particularly for our US investor; and
- Regardless of whether the Urban Healthy Treats deal goes ahead, to provide advice on the proposed strategies to open one or more BFF concept cafés, centralise the kitchen, and begin wholesaling to pre-schools and boutique hotels.

Kind regards,

**Mr Sunny Kumar**  
Chief Executive Officer  
**Bean Friends Forever Pte Ltd**

**END OF EXHIBIT 20**

**Bean Friends Forever: requirements**

You are a Manager with Benchmark Chartered Accountants LLP (Benchmark). You have been tasked by Madam Melinda Yacob, the Vice President of Integrative Business Solutions at Benchmark, to write a report for her review prior to submission to the Board of Bean Friends Forever Pte Ltd (BFF).

Your formal report should comprise the following four elements:

<b>Exemplify Question Number</b>	<b>Requirement 1 – An Executive Summary</b>
<b>1</b>	<p><b>(a)</b> Your Executive Summary should allow the Board members of BFF to obtain a general understanding of what your report contains including the key numbers, as well as clearly state your conclusions and recommendations in a summarised integrative manner.</p> <p style="text-align: right;"><b>(15 marks)</b></p> <p style="text-align: right;"><b>(Total: 15 marks)</b></p>



**Exemplify  
Question  
Number**

**Requirement 2 – Financial performance and controls**

Despite its success during the early years, BFF is now facing declining profitability, in part due to intense and increasing competition, the high cost of leasing premises, and the higher prices commanded for quality ingredients, not to mention the challenges of attracting and retaining trustworthy staff leading to ever increasing employment costs. To assist the Board of Directors to better understand BFF's current situation, you are required to assess the company's recent past financial performance and controls.

- 2**                    **(b)** Analyse possible reasons for the disappointing financial performance of BFF in the six months to 30 September 2018, including why profitability at the company has not improved with the growing revenues. **(16 marks)**
- 3**                    **(c)** The BFF Board knows it must actively manage risk and internal controls but due to time constraints and other pressures, the Executive Directors have not always given these issues priority.
- (i)** Suggest internal control measures that might be introduced to reduce the possibility of fraud from the illicit selling of products from its bakery outlets; and **(10 marks)**
- (ii)** Advise the Board whether it should agree to accept payments in cryptocurrencies. In giving your advice, outline briefly the financial, operational, and risk issues that should be considered before agreeing to this method of payment from a customer. **(4 marks)**
- (Total: 30 marks)**

**Exemplify  
Question  
Number**

**Requirement 3 – Realising a return on investment**

BFF is starting to mature as a company and, as a shareholder, Yap Ka Kui (YKK) is now looking for a return on his investment.

- 4**      **(d)** Suggest with reasons what dividend policy the company should adopt for the financial year beginning 1 April 2018 onwards, on the assumption that the proposed takeover by Urban Healthy Treats Ltd (UHT) (Exhibit 19) does not go ahead.      **(5 marks)**
- 5**      **(e)** Where applicable, advise on the Singapore income tax and stamp duty implications for YKK, UHT, and BFF in respect of each of the following independent proposals:
- (i)**    Proposal 1: UHT will acquire 100% of the shares in BFF in accordance with the proposal outlined in Exhibit 19;      **(9 marks)**
- (ii)** Proposal 2: From Financial Year beginning 1 April 2019, BFF will pay an annual director’s fee of S\$7,200 to YKK for his contributions at Board of Directors meetings of the company. You may assume that the offer from UHT as outlined in Exhibit 19 does not go ahead; and      **(4 marks)**
- (iii)** Proposal 3: From Financial Year beginning 1 April 2018, BFF will pay a dividend to its shareholders as recommended by you in (d) above, subject to the company’s profitability and cash flows. You may assume that the offer from UHT as outlined in Exhibit 19 does not go ahead.      **(2 marks)**

**Exemplify  
Question  
Number**

**Requirement 3 – Realising a return on investment (cont.)**

**6**

**(f)** Advise, giving reasons, whether the informal offer of S\$1,000,000 from UHT to acquire 100% of the share capital of BFF (Exhibit 19) puts a fair valuation on the company that the Board should consider.

**(15 marks)**

**(Total: 35 marks)**

**Exemplify  
Question  
Number**

**Requirement 4 – Strengthening the competitive position**

7

**(g)** Based on the limited information available and your analysis in Requirement 2 (b) and (c), and Requirement 3 (d) and (e-ii and iii), assess the viability of the following three proposals:

**(i)** To open a concept café (Exhibits 12 and 17); and

**(12 marks)**

**(ii)** To centralise the kitchen (Exhibit 13) and to begin wholesaling to pre-schools and boutique hotels in Singapore (Exhibit 13).

**(8 marks)**

In relation to Requirement 4(g), your assessment should indicate the management and risk issues that might arise if a decision is taken to go ahead with these projects, as well as include a recommendation to the Board regarding which project or projects to undertake, if any. You may assume that the offer from UHT as outlined in Exhibit 19 does not go ahead.

**(Total: 20 marks)**

**END OF EXHIBIT 21**

**END OF PAPER**