ADVANCED LEVEL EXAMINATION

2023

Daisy

(3.5 HOURS)

STRATEGIC BUSINESS MANAGEMENT

This exam consists of **TWO** questions (100 marks).

Marks breakdown

Question 1	60 marks
Question 2	40 marks

The questions in this paper have been prepared on the assumption that candidates do not have a detailed knowledge of the types of organisations to which they relate. No additional credit will be given to candidates displaying such knowledge.

The link to the ICAEW bookshelf can be found in each question above the word processing area.

Important Information:

Please read this information carefully before you begin your exam.

Starting the exam

Click on the **right-hand arrow** in the header to begin the exam. The exam timer will begin to count down.

Preparing your answers

Respond directly to the exam question requirements. Do not include any content of a personal nature, such as your name.

Only your answer in the word processing area will be marked. You must copy over any data for marking from the spreadsheet area to the word processing area.

Issues during the exam

If you encounter any issues during the exam you should tell the invigilator (centre) or online chat support (RI) as they may be able to resolve the issue at the time. Neither the invigilator nor the online chat support can advise you on how to use the software.

Ending the exam

When the exam timer reaches zero, the exam will end. To end the exam earlier, go to the last question and click the right-hand arrow button, then click the **Submit** button to close the exam.

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After the exam

We will invite you to complete a student survey after the exam.

If you believe that your performance was affected by issues which you raised during the exam, you should submit a special consideration application to ICAEW, **within 7 days of the exam**, as per ICAEW's published policy. If you are sitting remotely please refer to anything of note which occurred and will have been recorded, for use as evidence to support your case.

1 Fashbook Ltd

Assume it is now early July 20X9.

Fashbook Ltd (FL) is a UK private limited company that sells fashion goods online, mainly to a teenage customer base. It was established seven years ago. The company's business has been expanding rapidly and in the past three financial years it has made a profit, after several initial loss-making years.

The chairman of FL, Angus Brown, has asked to meet with Sally Palmer, who is a partner in Gower Tuck, a firm of ICAEW Chartered Accountants. You report to Sally Palmer in the advisory department of the firm.

The meeting

Angus Brown begins the meeting by saying that the company's finance director, who also acted as its management accountant, had recently retired unexpectedly due to ill health. As a result he would appreciate advice from Gower Tuck on several matters. He began:

> I'm not sure how much you know about Fashbook, so I have produced a brief summary of our business model (**Exhibit 1**).
>
> The reason that I originally asked to meet with you concerns our supply chain arrangements. Let me come on to supply in a moment, but first I would like to talk to you about the company's recent performance. Our previous three financial years have shown a profit, and the board is hoping to take the company on to the stock market in the next year or so. I can give you summary details of our financial results and some operational data for the last two years (**Exhibit 2**).
>
> The finance director was adamant that increasing sales revenue – through attracting new customers, increasing the number of orders we receive and developing new ranges – was crucial to Fashbook's competitive success. As such, he was very pleased with the 20X8 results, and said they indicated that Fashbook was in a strong competitive position. In particular the new product range appears to have been a success amongst the target customers (**Exhibit 3**). However, the finance director did express a degree of caution that competition in fashion retailing is intensifying, and high street and online retailers have both begun cutting their prices.
>
> Now let me move on to our supply chain problem.
>
> At the moment, Fashbook has a design team that creates all the designs for our products, and we have very talented design people working for us. Fashbook then commissions a supplier to make the goods. When the goods have been made, they are shipped to a large central warehouse that we operate in the UK, which is approaching capacity.
>
> Although we use several suppliers, most of our manufacturing is done by Vamosar, a supplier based in Eastern Europe. We have used this supplier ever since the company was established. With an eye on a possible IPO in the next year or so, the board is concerned about its over-reliance on this single external manufacturer, and we have been considering a number of options.

We have been trying to assess the financial implications and the risks associated with each of the options. Let me give you the details (**Exhibit 4**). You might also find the attached report in the financial press interesting (**Exhibit 5**).

Before he retired, our finance director produced some figures supporting the proposal to acquire our major supplier, Vamosar, which is one of the options the board is considering. I have my doubts about the reliability of the finance director's appraisal of the proposed investment, however, because he was already feeling unwell at the time he produced it, so I would like you to look at it and comment on it (**Exhibit 6**). The board also wants to know what the foreign exchange implications of acquiring Vamosar might be.

Fashbook has plans to extend its warehouse capacity, and at the same time make further improvements to its order management and inventory control system. So if Fashbook also decides to acquire Vamosar, we will need to find finance for all these investments, to the order of perhaps £26 million. Fashbook is still a private company, and I would appreciate your advice as to how it might raise that amount of capital.

Angus Brown explained that there were several matters that his board would appreciate assistance with from Gower Tuck, and he promised to set these out in an engagement letter in the next day or so (**Exhibit 7**).

At the end of the meeting, Angus mentioned that a potential ethical matter has also just arisen, on which he would like our advice (**Exhibit 8**).

Requirements

Draft responses to the requests in the engagement letter (Exhibit 7).

In addition, please set out the potential ethical implications of the matter identified by Angus (Exhibit 8).

Total: 60 marks

Exhibit 1: The business model of Fashbook Ltd

Fashbook Ltd (FL) is an online retailer of fashion goods for young customers. The goods are designed by FL's own design team, but are manufactured externally by selected suppliers. All goods are made and sold under the Fashbook brand name.

Since it was first established, the company has built up a very successful business, and sales revenue continues to grow at a very high annual rate. Some investors have expressed surprise that FL has not already sought a stock market listing in the UK.

Most of FL's sales are in the UK, but the company also has French, German and Spanish language websites, and it sells to customers throughout Europe. All goods are despatched from a large central warehouse in the UK, using third party delivery companies. All sales are to individual buyers: there are no trade sales.

Over time, the company has increased the range of goods that it sells. Originally it concentrated on girls' fashion clothes, but it has since expanded into shoes, sunglasses, make up and (more recently) fashion clothes for teenage boys.

FL seeks to offer attractive fashion items at a low price that its customers can afford. The market for fashion items is very competitive, but most competitors sell their goods at higher prices than FL.

Sales revenue has increased at a very rapid rate, and FL has found that in order to achieve sales growth, spending on marketing and advertising has had to be increased proportionately. The company advertises extensively, through social media, catalogues and occasional TV campaigns. The marketing team uses the sales history of its customers to build a profile of their preferences, and conducts personalised marketing campaigns via the internet.

The warehouse is modern, and the company uses an order processing and inventory management system that is continually improved and updated by in-house IT staff.

At the current rate of revenue growth, it has been estimated that the warehouse will reach capacity usage in about two or three years' time. The company has already drawn up plans to extend the warehouse and to increase its capacity by 7,500 square metres.

Exhibit 2: Summary financial results and operational data for Fashbook Ltd

Extracts from the statements of profit or loss of Fashbook Ltd for the years ended 31 December (available in your workings spreadsheet)

	A	B	C
4		**20X8**	**20X7**
5		**£'000**	**£'000**
6	Revenue	75,283	47,097
7	Cost of sales	(31,619)	(20,770)
8	Gross profit	43,664	26,327
9	Distribution costs	(15,710)	(9,608)
10	Marketing costs	(12,792)	(8,008)
11	Administration costs	(8,083)	(5,821)
12	Operating profit	7,079	2,890
13	Interest expense	(59)	(52)
14	Profit before taxation	7,020	2,838
15	Taxation	(1,405)	(558)
16	Profit for the year	5,615	2,280

Summary statements of financial position as at 31 December

	A	B	C	D	E
20		**20X8**		**20X7**	
21		**£'000**	**£'000**	**£'000**	**£'000**
22	Intangible assets		2,136		441
23	Property, plant and equipment		4,362		3,504
24			6,498		3,945
25	Inventory	4,216		1,644	
26	Receivables	5,631		3,455	
27	Cash and cash equivalents	2,676		2,511	
28		12,523		7,610	
29	Trade payables	(8,415)		(6,862)	
30	Taxation payable	(839)		(606)	
31		(9,254)		(7,468)	
32	Net current assets		3,269		142
33	Total assets less current liabilities		9,767		4,087
34					
35	Share capital and reserves		7,539		2,224
36	Long-term loans		2,228		1,863
37			9,767		4,087

Summary statement of cash flows in the year to 31 December 20X8

	A		
41		**£'000**	**£'000**
42	Profit after taxation		5,615
43	Depreciation and amortisation		785
44	Taxation expense		1,405
45	Interest cost		59
46			7,864
47	Increase in inventories	(2,572)	
48	Increase in receivables	(2,176)	
49	Increase in trade payables	1,553	
50			(3,195)
51			4,669
52	Capital expenditure		(3,338)
53			1,331
54	Interest paid	(59)	
55	Taxation paid	(1,172)	
56	New loans	365	
57	Dividends paid	(300)	
58			(1,166)
59	Increase in cash and cash equivalents		165

Operational data

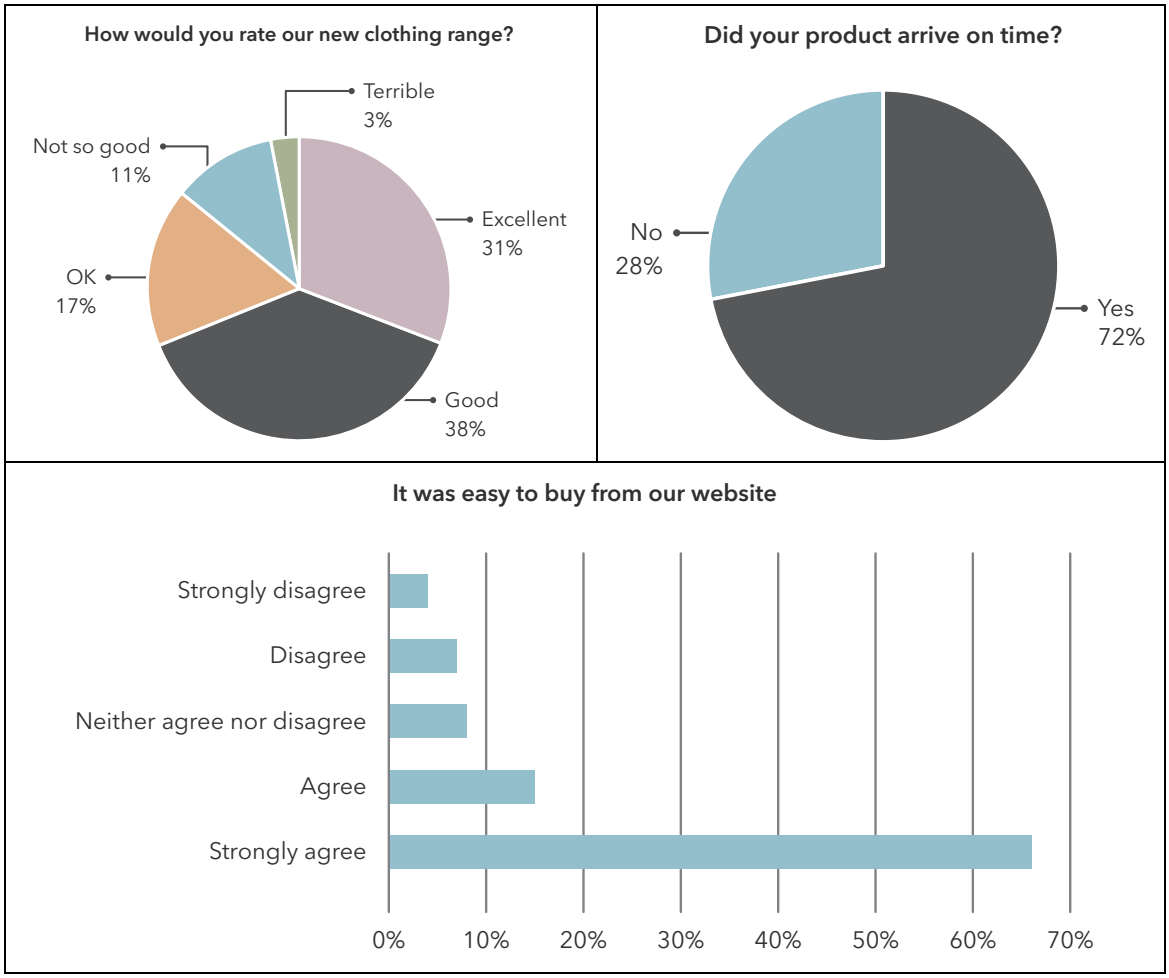
	A	B	C
62		**20X8**	**20X7**
63	Orders	2,012,000	1,144,000
64	Units sold	5,250,000	2,750,000

Exhibit 3: Briefing Note – Design Team launch of new product range

The clothing market for 14-18 year old girls is competitive but recent market research has revealed a gap in the market for fast fashion; low priced but well designed, 'on trend' clothing.

Following in depth demographic and trend research the design team launched a new range that aims to blend fashion and functionality. The design team believes the range meets the needs of 14-18 year old girls and this has been confirmed by positive feedback from a customer survey (see below). The survey reveals high levels of customer satisfaction which is supported by strong revenue growth for the first quarter of sales.

Results from the survey*



*The survey was sent to customers who have placed more than one order from the new range, using the email address provided when an order was placed.

Exhibit 4: Supply chain strategy options

The board of FL has been considering four different options for manufacturing its products.

(1) To continue with current supply arrangements, buying mostly from Vamosar, an external supplier in Eastern Europe.

(2) To use a much larger number of different suppliers than at present. At the moment a single supplier in Eastern Europe, Vamosar, produces about 50% of the goods commissioned by FL, and some members of the FL board believe that this puts excessive reliance on a single supplier.

(3) To purchase Vamosar. The board of FL has been advised that the current owners of Vamosar would be prepared to sell their business for 57 million East European dollars (EE$). The current exchange rate is EE$3 = £1.

The majority of Vamosar's sales come from its contract to supply FL, but it does also supply some other online retailers.

(4) To build and operate a new manufacturing facility in the UK, located close to FL's warehouse in the Midlands.

At the moment, FL negotiates supply terms with each of its suppliers annually. The goods that FL designs are grouped into about 100 different categories, and for each category of goods, the agreement with a supplier fixes the purchase price per unit for the entire year. For example, there are four different categories of fashion dresses, and each item in a category retails at the same price on FL's websites. FL therefore buys items in each category at a fixed price, and so knows in advance what the gross profit per unit will be.

Exhibit 5: Press report in the Global Business Times, 24 June 20X9

Denial of illegal practices at Vamosar

Ivan Small, millionaire businessman and owner of Eastern European soccer champions Team Kopek FC, angrily denied that his manufacturing company Vamosar has been illegally recruiting employees from countries in Asia and treating them as slave labour. He was faced by a large demonstration of human rights activists when attending Team Kopek's Champions League quarter final game at the club's stadium earlier this week.

A government spokesman, when questioned, stated that no complaints had been received from members of the public about illegal immigration practices, nor the use of slave labour at Vamosar.

Vamosar is a major supplier to UK online retailer Fashbook.

Exhibit 6: Estimate of the net present value of the proposal to acquire Vamosar

The following net present value calculation was made to support the acquisition of Vamosar. It was produced very quickly by FL's finance director, but Angus Brown, FL's chairman, is not convinced about its suitability for appraising the proposed investment.

Assumptions

1 Goods will be manufactured by Vamosar and transferred to FL's central warehouse at a price close to current selling prices.

2 In the third year after acquisition, Vamosar will reach maximum output capacity. There will be no prospect of increasing production capacity after this maximum is reached, so it is assumed that from the third year onwards annual production will be fixed.

3 Cash flows are shown in pounds sterling, but Vamosar will make goods with local materials and labour. Transfer prices to FL's central warehouse will be priced in pounds sterling. An exchange rate of EE$3 = £1 has been assumed. However the EE dollar (EE$) fell in value against sterling by about 5% in 20X8.

4 The expected cash flows from the business have been discounted at 12%, which is the assumed cost of FL equity.

Cash flow estimates (available in your workings spreadsheet)

	A	B	C	D
1	**Cash flow estimates**			
2	**Year**	**1**	**2**	**3 onwards**
3		**£'000**	**£'000**	**£'000**
4	Revenue	25,000	30,000	35,000
5	Expenditure	(23,100)	(27,700)	(32,300)
6	Net cash inflows	1,900	2,300	2,700
7	Terminal value			22,500 note[1]
8	Discount rate	0.12		
9	Cash flows to be discounted	1,900	24,800 note[2]	
10	Present value @12%	£21,467 note[3]		

Note[1] D7 =D6/B8

Note[2] C9 =C6+D7

Note[3] B10 =NPV(B8,B9:C9)

The owners of Vamosar are believed to be asking EE$57 million or £19 million for the business. These figures suggest that FL will gain value from acquiring the company.

Vamosar's management is due to provide the management of FL with some forecast revenue and profits information in the next two weeks, which they say will support their asking price.

Board meeting – 30 June 20X9

The potential acquisition of Vamosar was discussed at the 30 June 20X9 board meeting, where the following comments were made:

- Production Director: 'I believe that the cost of local materials and labour is a key issue. I'd like to see the impact on the valuation of both a 5% and a 10% increase in overall expenditure.'
- Sales Director: 'I do not believe the ambitious sales growth of £5 million in years 2 and 3 will be achieved. I would like to see the impact on the valuation of a 5% growth in revenue throughout the 3-year period combined with a 5% growth rate for expenditure.'
- Finance Director: 'I'm more concerned about the risk associated with the acquisition and the cost of capital used. I would like to know what the valuation would be if the discount rate were to be 15% to reflect the increased risk associated with acquiring a manufacturing company.'
- Customer Service Director: 'Due to the public concern over the environmental impact of our products, it is important that we consider the impact on our ESG objectives when appraising new investments such as the acquisition of Vamosar.'

Exhibit 7: Draft terms of engagement set out in a letter from Angus Brown to Sally Palmer

The board of Fashbook Ltd asks Gower Tuck LLP to prepare a report covering the following matters:

(a) On the basis of the financial results and operational data available to you, evaluate the finance director's assertion that increasing revenue is critical to Fashbook's competitive position. Please highlight any areas of concern arising from the 20X8 results.

As part of your analysis evaluate the reliability and relevance of the data in the customer satisfaction survey (**Exhibit 3**), explaining any potential causes of bias.

(b) Set out the nature of supplier risks for FL, and explain the significance of these supply risks for each of the four supply options under consideration.

Within your explanation, highlight the ethical implications for FL of the issues reported in the Global Business Times (**Exhibit 5**).

(c) Comment on the suitability of the net present value calculation produced by FL's former finance director as a basis for making a decision on the proposed Vamosar acquisition. Respond to each of the Director's concerns raised during the board meeting on 30th June 20X9. Also please provide an assessment of any additional foreign exchange risks to which FL would be exposed if it were to acquire the business of Vamosar, and the financial reporting implications of them for FL.

In addition, please can you outline the financial reporting implications for FL (other than reporting for foreign transactions and operations) if it acquires Vamosar.

(d) We understand that you could perform assurance procedures to assist us in gaining assurance over the prospective financial information that is due to be provided by Vamosar management. Could you please provide me with a summary of the factors that you will need to consider, the areas where procedures will need to be performed and the type of report that you could provide.

(e) Give your opinion on the most appropriate method, or methods, for raising the additional investment capital of up to £26 million, as indicated by Angus Brown.

Exhibit 8: Potential ethical matter

At the end of the meeting, Angus told Sally Palmer, in confidence, that there were concerns that Fashbook might have been the victim of a cyber attack, potentially affecting the security of customers' personal or financial data.

Angus mentioned that IT staff were still investigating, but the board had been alerted. However, there was disagreement among the board members about how to respond. Some argued that Fashbook should alert customers immediately, while others argued that publicising a breach would damage Fashbook's reputation, so Fashbook should not make any announcements until the facts of the case had been fully investigated.

Angus explained he could see potential advantages and disadvantages in both approaches, but asked for advice about the ethical issues, adding that it is very important that Fashbook is seen to behave ethically.

2 Projecta Contractors plc

Assume it is now July 20X9.

Projecta Contractors plc (PC) is a UK listed company that specialises in undertaking major construction project work, mainly in the UK and the US.

You are Lindsay Pitt, an ICAEW Chartered Accountant who has just joined PC as the group accountant. You have been asked to attend a meeting with the Finance Director, Chris Fellows.

The meeting

Chris opened the meeting. 'Hello Lindsay, let me explain why I have asked you to come and see me. I am hoping that you can help me with a presentation I shall be making to the Board in a few days' time. I know that you are new to PC, so I have prepared brief background notes about the company's current situation, and summary financial statements for the past two years (**Exhibits 1 and 2**).

The Board recognises that, overall, we are in a difficult financial position, and things have been getting worse for the past two or three years. We have a good business, but in the short term there are several problems that need to be sorted out. We have a full order book and a reasonable amount of cash in the bank, so not everything is bad. Our share price has fallen this year, but only by about 5%, from £0.57 to £0.54. But there are problems, and the Board has asked me to make a presentation of the company's position at our next meeting.

PC has a bank loan of £30 million repayable in 6 months' time, so I have been looking into ways of renewing our debt financing. I have been surprised by the reaction from our relationship bank. Even though we have a borrowing facility of £25 million to meet short-term working capital requirements, which we have not used yet, the bank seems to be reluctant to offer us a new loan. Also, our major shareholders aren't interested in a rights issue to provide more equity.

I had a meeting with some hedge fund managers (Montana) a week or so ago, and they have come up with a refinancing package for PC. In strict confidence, I am going to give you some of the details of their offer (**Exhibit 3**).

Our business has been adversely affected by poor economic conditions. Although we are beginning to see an economic recovery in the UK and the US, the construction industry is usually one of the last to feel the benefits of an upswing in the economic cycle. Already in this current financial year, we have had to revise our profit downwards due to four major contracts over-running. In my opinion our bids to win those contracts were far too low, meaning that the budgeted profit margins were too low to justify the work involved. We were too keen to win the work. I intend to make project tendering and management risks an element of my presentation to the Board. I have made some notes for you that you may find useful (**Exhibit 4**).

The group has a subsidiary in the UK, Projecta Advisers Ltd, that specialises in providing project managers for large government building projects. The Board approved a plan earlier this year to find a buyer for this subsidiary, and we have now been approached by a major project management consultancy in the UK that would like to purchase Projecta Advisers.

Although the deal has not yet been finalised, negotiations are reaching an advanced stage, and the Board would like to understand the financial reporting implications of the sale. I have set out some key details for you (**Exhibit 5**).

I would like you to help me by preparing some notes for my presentation to the Board. As you are new to the company, I think you can cast a fresh eye over some of the problems, and I'm sure that your input will help my own thinking. I have prepared a list of the things I would like you to do, and I will send these to you in an email after this meeting (**Exhibit 6**)'.

Requirement

Prepare the notes that Chris Fellows has asked for in his email (Exhibit 6).

Total: 40 marks

Exhibit 1 – Projecta Contractors plc

Projecta Contractors plc (PC) is a well-established construction firm specialising in major construction contracts for customers in both the government and private business sectors. Although it occasionally does work in Europe, most of its operations are in the UK and the US. Approximately 55% of its revenue each year comes from construction projects in the UK and about 40% comes from the US.

PC operates with a number of subsidiary companies. Each subsidiary in the UK and the US specialises in a particular type of construction project, such as building construction, road infrastructure and telecommunications network construction.

At the beginning of the global economic recession several years ago, PC attempted to avoid cutting back its operations. It started to bid for contracts where budgeted profit margins were low, in order to win the work. This approach was successful for a time, but in the previous and current financial years, about 10% of the work force has been made redundant.

PC's customers have also felt the effects of the difficult economic conditions. Even though PC's customers are governments and major companies, the company currently has impaired receivables of £3.4 million, of which £2.2 million are over 12 months old. There are also £18.5 million of receivables which are 'past due', but not yet impaired.

The Board of Directors responded to investor concerns about the company's position by increasing the annual dividend to £6.9 million in 20X7 and maintaining dividends at this level in 20X8. The dividend per share in each year was £0.075. The current share price is £0.54.

Exhibit 2 – Summary consolidated financial statements, Projecta Contractors (available in your workings spreadsheet)

Extracts from the statements of profit or loss of Projecta Contractors for the years ended 31 August

	A	B	C
4		**20X8**	**20X7**
5		**£m**	**£m**
6	Revenue	625.7	618.6
7	Cost of sales	(563.4)	(548.1)
8	Gross profit	62.3	70.5
9	Other operating expenses	(60.3)	(66.3)
10	Operating profit	2.0	4.2
11	Finance costs	(6.7)	(5.2)
12		(4.7)	(1.0)
13	Loss on discontinued operation	(3.3)	(1.5)
14	Loss for the year	(8.0)	(2.5)

Within the costs in 20X8, employment costs were £224.5 million.

Projecta Contractors: Summary statements of financial position as at 31 August

	A	B		C	
20		**20X8**		**20X7**	
21		**£m**	**£m**	**£m**	**£m**
22	Intangible assets		89.4		98.0
23	Property, plant and equipment		86.0		91.7
24	Trade receivables		32.5		38.7
25			207.9		228.4
26	Inventory	9.6		12.3	
27	Due from construction contract clients	45.1		45.3	
28	Trade receivables	89.7		88.6	
29	Cash and cash equivalents	43.9		39.1	
30		188.3		185.3	
31	Assets held for sale	16.5		–	
32			204.8		185.3
33	Total assets		412.7		413.7
34					
35	Equity: Ordinary share capital and reserves		78.9		93.8
36	**Long-term liabilities**				
37	Trade payables	13.0		11.4	
38	Provisions	6.4		8.0	

	A	B		C	
		20X8		20X7	
		£m	£m	£m	£m
39	Borrowing	89.4		78.6	
40	Derivative financial instruments	3.9		8.8	
41			112.7		106.8
42	**Current liabilities**				
43	Due to construction contract clients	25.7		27.3	
44	Trade payables	146.1		158.2	
45	Borrowing	33.7		27.6	
46		205.5		213.1	
47	Liabilities held for sale	15.6		–	
48			221.1		213.1
49	Total equity plus liabilities		412.7		413.7

Exhibit 3 – Refinancing options

Notes on the outcome of meetings on refinancing options:

1 Castro Bank plc (relationship bank). The bank would be reluctant to lend a large sum to PC, but may be able to arrange a small 5-year syndicated loan of £30 million. For any loan, the interest rate would be not less than 8%.

2 At meetings with major shareholders, all showed a reluctance to support a rights issue of equity. Most of them pointed to the company's current dividend policy as their reason for holding on to their shares.

3 Montana Hedge Fund indicated that it would be willing to organise a financing package of £35 million for PC. This would consist of three elements:

- £19.6 million of new equity in the form of 40 million ordinary shares
- £5.4 million of 8% redeemable preference shares, redeemable after 5 years
- £10 million in 7.5% unsecured bonds, paying interest on a semi-annual basis, repayable after 10 years at a premium of 5%

Exhibit 4 – Construction projects: tendering and project management

The process of tendering for major construction projects is expensive. In 20X8 PC incurred costs of £5 million in tendering for new projects. Bidders are not reimbursed by customers; therefore the cost of unsuccessful bids must be recouped in the price charged for bids that prove successful.

PC estimates that between 1 in 3 and 1 in 4 bids are successful, but a few years ago, at the beginning of the economic downturn, PC was achieving a success rate of over 1 in 2.

The bids for new contracts are decided by a senior management committee, supported by the finance department. Most contracts provide for an increase in the price payable to cover inflation in materials costs, as measured by an appropriate construction cost index. There is no inflationary allowance in the price for increases in other costs – such as labour costs and other project operating costs.

Most projects last for a number of years, and payments are received throughout the course of the work.

At the end of each financial year, the project manager for each project estimates the remaining costs to completion. If the estimate of the remaining costs exceeds the amount of further revenue due from the project, a loss is recognised immediately. In the past two years, however, unexpected losses have occurred due to projects taking longer to complete than anticipated.

The finance director of PC, Chris Fellows, is dissatisfied about project reviews, cost control and forecasts of costs to complete and contract value forecasting. In his opinion, controls are not strong enough, meaning the company is suffering from unexpected losses. In February 20X9 PC gave a profit warning to the stock market due to unexpected cost overruns on two projects that were over a year late in completion.

Exhibit 5 – Proposed sale of Projecta Advisers

We entered the project management market almost five years ago, establishing Projecta Advisers ('PA') in the UK. This company provides professional project management services to local and national government clients using a pool of experienced project managers that it has built up since it was established. The company has built a good reputation for helping its clients to deliver large building projects on time, on budget and in accordance with quality standards. This might be through the provision of integrated multi-skilled teams, or the appointment of a single project manager. It has been successful, but shareholders have long been worried about what some have seen as an unwelcome diversification into consultancy and away from our core expertise in contract tendering and construction. Given the difficult conditions that the Projecta group is experiencing, a decision was taken to sell PA and we have found a buyer, BuildForce, which is a specialist consultancy firm based in the UK.

The details of the sale negotiations are still being finalised, but they are at an advanced stage and a cash price has been agreed. The date of the sale is expected to be 1 December 20X9 and on this date, Projecta Contractors will receive net cash proceeds of £13.5 million for the sale of the net assets of PA. An extract of forecast figures for Projecta Advisers for the year to 31 August 20X9 is given below.

	£'000
Revenue	10,700
Operating profit	730
Net profit	540
Intangible assets	3,239
Tangible assets	1,279
	4,518
Receivables	21,388
Cash	5,184
Payables	(15,990)
	10,582
Net assets	15,100

Exhibit 6 – Tasks

The tasks that Chris Fellows has asked you to carry out were included in the following email you received from him.

Lindsay

Do not worry about presenting your notes to me formally. Just make them clear and comprehensible please. I should like you to do the following for me.

(a) Use the information that I have given you to indicate why Projecta Contractors may be in financial difficulty. What are the symptoms and causes of the company's problems as far as you can judge, and to what extent should they be disclosed in the company's annual report and accounts?

(b) Explain the merits and disadvantages of the two refinancing options available to PC: a syndicated bank loan or the package proposed by Montana Hedge Fund. Also explain the probable reasons for the refusal of shareholders to support a rights issue.

(c) Assess the apparent problems faced by the company in its procedures for bidding for contracts and in subsequent project management and control.

(d) Explain the financial reporting implications of the sale of Projecta Advisers to BuildForce in the financial statements for the year ended 31 August 20X9.

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