



TEST OF PROFESSIONAL EXPERTISE

Part I

Comprehensive Case Study Initial Information

Tuesday 31 October 2023

10.00 - 12.30 (2½ hours)

14.00 - 17.00 (3 hours)

Instructions to Candidates

This examination is five and a half hours in length, with a lunch break of 90 minutes. You have been allocated 15 minutes at the start of each exam session to download or print your paper.

These sheets contain the morning information for the exam:

- Background Notes
- Sections 1 – 7

You must undertake the tasks detailed in the morning session. You should familiarise yourself thoroughly with all the information during the morning session in preparation for answering the case study question which will be issued at the start of the afternoon exam session.

Before closing your documents at the end of the exam session you must check that your full, final response has been saved to your hard drive prior to submission. This script MUST be submitted at the end of the AM exam session.

It is your responsibility to monitor the time and ensure that you stop writing in time to upload your response file before the exam window closes – you will not be able to submit after this point.

Use the “Upload File” button to submit your response for marking. This will be considered as your FULL and FINAL response and is the only version that will be marked.

You must only submit your work once, unless instructed otherwise by the assessments team and no other documents will be accepted post-exam under any circumstances.

In submitting this exam, you confirm that your conduct throughout the exam adheres to the [ICAS Academic Integrity Policy](#).

You confirm that you did NOT act in any way that would constitute cheating, misrepresentation or unfairness including, but not limited to, using unauthorised aids and assistance, impersonating another person, and committing plagiarism.

You agree that ICAS will check your work for plagiarism, and you confirm that you understand that assessed work that has been shown to have been plagiarised will be penalised.

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BACKGROUND NOTES

It is late October 2023. You are Max Douglas, a newly qualified chartered accountant employed by Stephens and Henderson LLP ('SH'), a large accountancy partnership. You have recently relocated to the SH Manchester office, having previously been based in the SH North London branch. You have just started a six-month secondment to the Lorenzo Group of companies ('Lorenzo Group') providing maternity cover for the Financial Controller ('FC'). Robin Sinclair, a partner at SH has asked you to join her for an online meeting to discuss the secondment.

"Max, thanks for taking the time today, I appreciate you must be busy with form filling, Manchester inductions and background reading." Robin continued,

"As you have just started your secondment at the Lorenzo Group, I wanted to check that everything is OK, and you have everything that you need. I assume that you have been able to access and download the client information on the SH network. There is quite a bit of detail for you to review (Sections 1 to 6).

"I am sure that you will be familiar with Lorenzo Romero, he is such a celebrity figure, even if you are not particularly into celebrity chefs he always seems to be posting on social media and appearing on various shows on the television." Robin paused expectantly.

"Yes, of course, he is very well known," you reply. "Lorenzo's is my favourite Italian restaurant, though to be honest some locations are better than others, in fact my partner and I are trying out the Manchester city centre one this Saturday."

"Excellent, glad you are familiar with the chain." Robin added, "There are several distinct parts to the Lorenzo Group, for example, did you know that Bomerano's is part of the group too?"

"Oh, the service station takeaway place? Right, no I didn't know that, interesting." You recall the disappointing slice of pizza that you had on a recent journey.

"Anyway," Robin continued, "as you know the role involves standing in for the FC, overseeing the preparation and presentation of the monthly management accounts, together with any other routine management reporting that might be required. I'm not sure if you have had much experience of 'the other side' but I am confident that you will soon settle into the role."

"Actually," you reply, "it will be a new experience for me, as to date most of my work has been in personal tax, with a six-month secondment to the audit department." You secretly hope that a vacancy in the tax department has materialised as this is much more in your comfort zone.

"I see, sure, I think I knew that, anyway you've passed all your exams and, well, it's too late to change now, can I suggest that we keep this between ourselves? I might have

exaggerated your skills to Lorenzo; anyway it's only for a few months, can't be helped now." Robin paused.

"So, as I was saying, in addition to the FC role, Lorenzo has asked that you take on some additional reporting, I said that would be fine. It might mean a bit of extra work for you I'm afraid, however, I will make a note and it won't be forgotten when it's appraisal time!

"We've already agreed fees for the FC secondment, and it hasn't been the best year for them, so I don't want to charge more than I have to. Let's face it our fees are quite high! Lorenzo and I go back a long way, and we help each other out if we can, if you know what I mean."

You smile and nod silently as you are not sure how to reply.

You also have an ominous feeling as you had heard that staff morale was poor in the Manchester office with higher staff turnover compared to other offices. You had been warned that some partners routinely put pressure on staff to work longer hours and deliver more, it seems that Robin is one of those partners.

"Anyway," Robin continued, "as I was saying, it hasn't been the best year and Lorenzo has asked if you could evaluate the financial performance (revenue and profitability) of the group in total, and by each of the five revenue streams. He can't understand why the operating profit has fallen because lockdown days are behind us now, so it should be back to profitable times. I said this would be fine and that you could prepare a briefing paper for the board during your first week. Could you also include possible reasons that explain why the profit has changed and some recommendations on how profit could be improved in total, and also in each of the five revenue streams?

"It will help with your overall understanding of the business too. I was thinking that once you have finished the secondment you could manage the audit next year, given your knowledge of the business we should be able to trim down the budgeted time and save some costs.

"Also, before I forget, I'll email over some vouchers for Lorenzo's, it's one of the perks with this client, just let me know when you need any more and I'll sort them for you. Mind you when you are on secondment you'll be able to get them for yourself anyway.....I guess I'll be asking you for them going forward!

"On a separate note, Lorenzo spoke to me in confidence about a possible gift of Lorenzo Holding shares to his daughter. He wanted me to advise on the possible implications, including any tax consequences if he goes ahead with this, I'm meeting him next week and I don't have time to prepare any notes. I remember that you said that you'd previously worked in tax, so I thought I'd pick your brains on this too! Could you prepare some notes that I can use in the meeting and include your recommendation. I've made a note of Lorenzo's plans and I'll email it to you (Section 7).

“So, to summarise, in addition to the FC role, I need you to produce a briefing paper for the board and prepare some notes for my meeting with Lorenzo. Please could you prioritise this and email everything to me by lunchtime?”

“Obviously you are still employed by SH so as usual if you have any ethical concerns these should be raised at a later date with the SH ethics partner and with the Lorenzo Group.

“I think that’s all we need to discuss, have you got any questions?”

“No, all sounds good” you say, “I’ll get started straight away as it looks like I am going to be busy!”

Required:

1. Prepare the briefing paper for the board of directors that:
 - evaluates the performance of the group in total and by the five revenue streams,
 - recommends how the operating profit could be improved; and
2. Prepare the notes for Robin for her meeting with Lorenzo that:
 - explains the financial and non-financial considerations of gifting the shares in Lorenzo Holdings
 - explains the tax implications of gifting the shares in Lorenzo Holdings.

Review all the information in preparation for the afternoon session.

SECTION 1

History and background

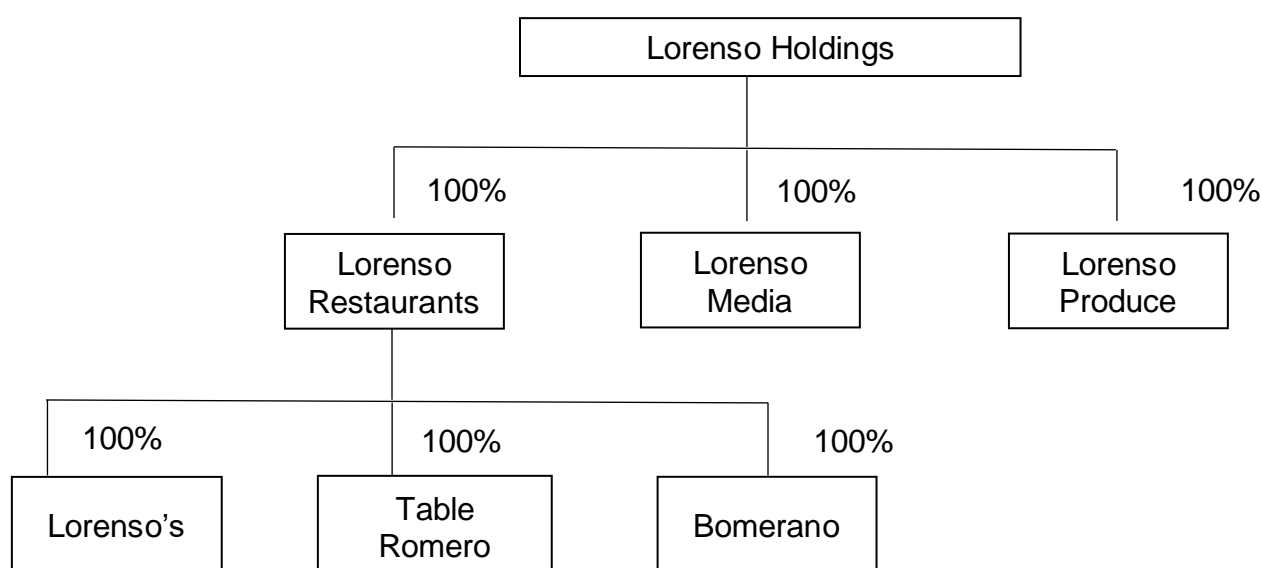
Lorenzo Romero early career

Lorenzo Romero was born in Amalfi, Italy in 1979. He moved to the UK in 2000 to train as a chef working for the renowned and award-winning restaurateur, Veriano Verde. It was during this time that Lorenzo appeared in a documentary about Veriano's exclusive restaurants. Following on from this Lorenzo made several appearances on daytime television shows before becoming a permanent member in the game show 'Stuffed Tomatoes'.

In 2004 Lorenzo presented his first cooking show, 'The Italian Way', a six-part series that saw Lorenzo travel around Italy cooking traditional Italian meals, focussing on the regional specialities. The television show successfully launched Lorenzo's solo career, with five series in total and ending in 2008.

The Lorenzo Group

The Lorenzo Group today is comprised as follows:



Lorenzo Holdings Limited ('Lorenzo Holdings')

Lorenzo Holdings, which is 100% owned by Lorenzo, operates all the shared services for the three trading companies. This includes the maintenance and operation of the website, Lorenzo Online. Revenue from online sales is recognised in each separate trading company.

Distribution and logistics are not included in the shared services and are the responsibility of each trading subsidiary.

The full cost of the shared services is recharged to each of the three trading subsidiaries. There are five revenue streams in total: Three separate streams for Lorenzo Restaurants, plus Lorenzo Media and Lorenzo Produce.

Lorenzo Restaurants Limited ('Lorenzo Restaurants')

In 2005 Lorenzo opened his first restaurant, Lorenzo's, in Soho, London. The restaurant was very successful, this was initially attributable to his celebrity status but ultimately due to the reputation built through reasonably priced good food and service. Since 2005 the restaurant business has grown significantly and now generates annual turnover of around £200 million.

To date Lorenzo has launched three restaurant chains within the UK:

- Lorenzo's Limited ('Lorenzo's') – mid-priced Italian restaurants
- Table Romero Limited ('Table Romero') – expensive fine dining restaurants
- Bommerano Limited ('Bommerano') – food-to-go takeaway outlets

Each restaurant chain operates as a 100% subsidiary of Lorenzo Restaurants.

Lorenzo's

There are now over 150 restaurants trading as Lorenzo's throughout the UK. Each restaurant offers the same Italian styled menu with localised pricing.

The Lorenzo's menu comprises typical Italian foods such as pizza and pasta dishes. There have been some variations over the years but many of the options remain unchanged from the original 2005 version. Meals are priced slightly higher than similar styled restaurants due to the appeal of visiting a celebrity status venue.

Apart from restaurant managers and chefs, staff turnover is quite high. Waiting staff tend to be university students working part time to supplement their income whilst studying.

A key marketing and selling point of the Lorenzo's brand is the provenance of the ingredients. Each restaurant manager orders ingredients from an approved list of suppliers, many of which are located in Italy. Using traditional Italian varieties ensures that the final product remains true to the original Italian recipe.

Table Romero

2012 saw the launch of Table Romero, a fine dining restaurant chain. The restaurant maintains a Mediterranean theme but one that encompasses southern European countries and those in North Africa. The head chef at each restaurant is responsible for the local menu creation, including a range of seasonal specials available to diners.

Diners can expect to receive a five-star service, so the maître d' (head waiter) and serving staff are expected to be well informed so they can advise on menu choices and are able to suggest suitable wine to pair with the dishes. Waiting staff are typically employed full time and have excellent industry experience.

Vegetables, meat and fish are selectively resourced from European and African markets to ensure the use of authentic ingredients in recipes. Given the style of restaurant and the lack of standardisation with menus, each head chef is responsible for sourcing ingredients for their restaurant.

There are now five Table Romero restaurants across the UK.

Bomerano

In 2017 the group acquired the trade and assets of a UK-wide takeaway outlet. This involved taking over existing lease space in multiple locations. A new business, Bomerano was then launched through multiple outlets across the UK. Bomerano is a deli style takeaway specialising in Italian on-the-go meals. There are currently 75 Bomerano outlets, mainly located in service stations.

Provenance of ingredients is less important for Bomerano, instead customers are looking for a take-away meal offering good value and convenience. The menu is standardised across all outlets.

With the exception of the local supervisor, sales staff at Bomerano are typically on zero hours contracts. Turnover is high, however as the work is largely unskilled this has not led to any operational problems as staff are easily replaced.

Bomerano is yet to generate an operating profit.

Lorenzo Media Limited ('Lorenzo Media')

Lorenzo Media comprises revenue and profit that is derived from television shows, cookbooks, and other similar activities. Lorenzo has continued to develop his media presence and frequently makes guest appearances on television 'talk shows', in addition to many successful television series. His success is global, with a regular presence in programmes streamed outside the UK.

Lorenzo has published six cookbooks during the last ten years, and each has proven to be successful. Cookbooks are often written to accompany a particular television series. To assist in the design and development of new themes and recipes, Lorenzo Media employs a permanent team to research and test out new recipes for Lorenzo to use and adapt as he deems appropriate.

All books continue to generate royalty income (15% of sales), and all the books are still in print and available to buy.

Each new book is heavily promoted prior to launch, and all books have entered the UK top ten seller lists for non-fiction books in the launch week. Books are available to buy through the usual retail outlets and are also available to buy in the Lorenzo's restaurants and from Lorenzo Online, the group's website.

Lorenzo Media turnover fluctuates depending on the timing of new launches and TV shows but in good years generates revenue of approximately £100 million. There were no new television series or book in the year ended 30 September 2023, but a new series and book is due to be released in the year ending 2024.

Lorenzo Produce Limited ('Lorenzo Produce')

In 2010 Lorenzo launched his own brand of produce, this included pasta, pasta sauces and other Italian themed products. Initially the production was outsourced, however, in 2012 this was brought in house via a trade and asset acquisition. The Lorenzo label is now sold through the Lorenzo's restaurants, a small number of specialist deli retailers and from Lorenzo Online.

As with Lorenzo Restaurants many of the ingredients are imported from Italy. The rising cost of importing such ingredients is a concern for the group (Section 2). To maintain a competitive position the retail price of products has not changed since 2020.

SECTION 2

Notes from the meeting with CFO, Sapna Sran July 2023

New supply strategy

The business has seen significant cost pressure in recent years, driven by higher shipping and transportation costs, high levels of cost inflation, and in addition, premium prices for certain ingredients as a result of shortages caused by adverse weather conditions.

To reduce costs the board are proposing to source more ingredients from the UK, this will reduce importation, shipping and some transportation costs for the Lorenzo Group.

Goods will continue to be delivered directly to the UK distribution hubs prior to onward delivery to individual restaurants. Lorenzo Produce ingredients will continue to be delivered directly to the factory.

Unusually, the costs of transporting and distributing produce to restaurants and the factory is excluded from the cost of sales in the management accounts. Instead, this is shown as a separate line so that this cost is particularly visible to each of the three COOs, one for each of Restaurants, Media and Produce. We can expect this cost to fall as a result of this new sourcing strategy.

In addition, the new strategy will reduce the carbon footprint and food miles for the Lorenzo Group. The marketing department have been briefed to incorporate suitable 'green' messaging into future campaigns reflecting this change. The change will also reduce the exposure to currency risk as less produce will be imported.

SECTION 3

Notes from the meeting with Chief Marketing Officer ('CMO'), Jonathan Beasley July 2023

Marketing

The marketing team is managed centrally and has overall responsibility for the promotion of the Lorenzo brand. The CMO is very conscious that the media representation of Lorenzo has a direct impact on the fortunes of all three revenue streams.

The team rely heavily on social media and maintain active accounts on the main social media platforms such as Facebook, YouTube, Instagram, Twitter, TikTok and Pinterest.

New launches

Typically, the launch of a new television series is combined with an accompanying book stimulating demand for both produce and restaurants. Campaigns for new launches are managed strategically with a three-phase approach covering the pre, accompanying and post launch periods.

Ongoing

To maintain interest and a high profile between launches, the team ensure that there is a continual Lorenzo presence on all social media sites. Most sites are managed centrally, although Lorenzo does post comments through his own private Twitter account.

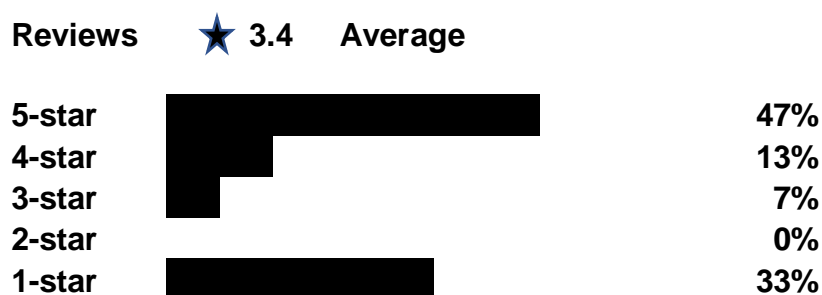
Review sites

In addition, the team use social media monitoring software for real time feedback and to manage any negative comments quickly and efficiently. This is particularly important for Lorenzo Restaurants if individual customers post negative reviews.

A screen shot from a reputable review website is shown next.

Recent reviews:

Lorenzo's Restaurants



Examples of recent reviews:

Worst food I have ever had



If I could, I would score zero. The service was slow, the pasta was hard and not cooked, the kids didn't eat it, what a waste of money.

Lorenzo's Wolverhampton
Reviewed 1 week ago

Best night out



Another great meal, Kelly, our waitress was so helpful.....we will be back soon!

Lorenzo's Edinburgh
Reviewed 2 weeks ago

SECTION 4

Industry information

Restaurants

The restaurant business is a very competitive industry that typically operates with low profit margins.

Restaurants operate as either full-service restaurants ('FSR') or quick service restaurants ('QSR').

FSR restaurants provide a table service where food is selected from a menu, ordered and then delivered by a waiter. Typical operating margins for FSR restaurants are between 3-5%

QSR restaurants do not offer a table service and food is usually purchased from a counter. Typical operating margins for QSR restaurants are between 6-9%.

Food manufacture

The following data was extracted from the latest accounts of two well-known food manufacturers.

	Pettle Plc		Applecore Ltd	
	£ million	%	£ million	%
Revenue	87,500	100%	1,324	100%
Gross profit	42,000	48%	422	32%
Operating profit	15,200	17%	39	3%

SECTION 5

Recent media articles

News of Today 1 October 2023

Out of the frying pan.....

It seems that Lorenzo Romero is the latest celebrity to come under fire for controversial tweets, angering the transgender and non-binary communities. The chain of events started with an altercation between two customers at the Leicester branch of Lorenzo's. The incident, which took place last Saturday night, was over the right to use the ladies' toilet. The situation escalated with one customer needing medical attention after the dramatic showdown. Images of the incident quickly emerged on social media.

Lorenzo's policy is to provide gender specific toilets and to date the chain has resisted any move towards gender neutral toilets.

A spokesperson for the trans-led charity, We Are Trans, expressed their concern that the continued provision of gender specific toilets causes distress and concern for trans and non-binary people. The charity claimed that there is no evidence to support the views that cisgender¹ women are reluctant to use gender neutral facilities due to feeling unsafe.

Lorenzo posted that "It's simple: there is a boys' room for boys and a girls' room for girls, if customers don't like it then perhaps they should eat elsewhere!" The message has since been deleted but did go viral with over one million retweets in the hours that followed.

Lorenzo's post has angered many who are calling for action against the Lorenzo Group. Protestors gathered yesterday outside the Leicester branch of Lorenzo's, demonstrating against the alleged transphobic policies of the restaurant chain.

Lorenzo has responded to the criticism, acknowledging that his comments were inappropriate. He has since posted the following on social media..... "Lorenzo's is, and has always been, a place where diversity is celebrated. The company is reviewing the current policy regarding the non-provision of gender-neutral toilets."

Celebrities at Home magazine (extract)

June 2023

Lorenzo Romero talks openly about family life, his wife, Bella who he married in 2002, and the challenges of raising five children and managing a multi-million pound business...

When asked about the future Lorenzo confided that he doesn't anticipate a return to his hometown of Amalfi just yet. "But the weather is much better," he jokes, "maybe I'll buy a vineyard and make wine in the sun!"

Lorenzo has certainly had a glittering career to date, and he shows no sign of retiring any time soon. Fans can look forward to a new show to be streamed in December accompanied by, of course, his next cookbook. I can't wait to reserve my copy!

¹ Cisgender means a person's gender identity matches their sex assigned at birth.

SECTION 6

The Lorenzo Group management accounts (extract)

Year ended 30 September 2022				
	Restaurants	Media	Produce	Total
	£'000	£'000	£'000	£'000
Revenue	220,875	95,000	20,500	336,375
Gross profit	13,537	57,000	5,150	75,687
Distribution costs	(7,115)	(4,000)	(950)	(12,065)
R and D ²	0	(1,000)	(290)	(1,290)
Administration	(5,850)	(2,500)	(2,390)	(10,740)
Operating profit	572	49,500	1,520	51,592
Head office costs	(2,101)	(904)	(195)	(3,200)
Net profit/(loss)	(1,529)	48,596	1,325	48,392
Dividend				31,100
Gross profit %	6%	60%	25%	23%
Operating profit %	0%	52%	7%	15%
Net profit/(loss) %	(1%)	51%	6%	14%

Year ended 30 September 2023				
	Restaurants	Media	Produce	Total
	£'000	£'000	£'000	£'000
Revenue	196,674	46,000	21,300	263,974
Gross profit	12,250	22,000	4,450	38,700
Distribution costs	(8,460)	(4,100)	(1,200)	(13,760)
R and D ²	0	(1,200)	(270)	(1,470)
Administration	(6,005)	(2,600)	(2,450)	(11,055)
Operating profit/(loss)	(2,215)	14,100	530	12,415
Head office costs	(2,432)	(569)	(263)	(3,264)
Net profit/(loss)	(4,647)	13,531	267	9,151
Dividend				5,900
Gross profit %	6%	48%	21%	15%
Operating profit/(loss) %	(1%)	31%	2%	5%
Net profit/(loss) %	(2%)	29%	1%	3%

² R and D: Research and Development

Analysis of head office costs (note 1)	Year ended 30 September	
	2022	2023
	£'000	£'000
Rent and rates	400	400
Other expenses	300	300
	<u>700</u>	<u>700</u>
Remuneration (note 2):		
Directors:		
Lorenzo Romero	800	800
Executive directors	510	552
Non-executive directors	100	100
Staff	1,090	1,112
	<u>3,200</u>	<u>3,264</u>

Notes:

1. Head office costs are apportioned based on revenue.
2. Remuneration includes benefits, pension contributions and employers' national insurance. A 6% pay rise was awarded to all staff in 2023.

Analysis of Lorenzo Restaurants

Year ended 30 September 2022				
	Lorenzo's	Table Romero	Bomerano	Total
	£'000	£'000	£'000	£'000
Revenue	208,015	3,646	9,214	220,875
Gross profit	12,643	547	347	13,537
Distribution costs	(6,200)	(245)	(670)	(7,115)
Administration	(3,400)	(150)	(2,300)	(5,850)
Operating profit/(loss)	<u>3,043</u>	<u>152</u>	<u>(2,623)</u>	<u>572</u>
Gross profit %	6%	15%	4%	6%
Operating profit/(loss) %	1%	4%	(28%)	0%

Year ended 30 September 2023				
	Lorenzo's	Table Romero	Bomerano	Total
	£'000	£'000	£'000	£'000
Revenue	185,349	3,702	7,623	196,674
Gross profit	12,615	552	(917)	12,250
Distribution costs	(7,320)	(250)	(890)	(8,460)
Administration	(3,500)	(155)	(2,350)	(6,005)
Operating profit/(loss)	<u>1,795</u>	<u>147</u>	<u>(4,157)</u>	<u>(2,215)</u>
Gross profit/(loss) %	7%	15%	(12%)	6%
Operating profit/(loss) %	1%	4%	(55%)	(1%)

Additional average information	Year ended 30 September 2022		
	Lorenzo's	Table Romero	Bomerano
Number of restaurants	142	5	75
Employees (headcount)	3,240	25	155
Spend per customer head	£21.67	£70.13	£4.50
Number of covers per restaurant per year	67,600	10,400	27,300

	Year ended 30 September 2023		
	Lorenzo's	Table Romero	Bomerano
Number of restaurants	152	5	75
Employees (headcount)	3,310	25	155
Spend per customer head	£23.45	£71.89	£4.20
Number of covers per restaurant per year	52,000	10,300	24,200

SECTION 7

Potential Gift to Sophia Romero

Notes from meeting with Lorenzo Romero

Lorenzo would like to gift a 40% share of Lorenzo Holdings Limited to his eldest daughter Sophia Romero.

Sophia has recently completed a degree in business management and Lorenzo would like her to take a position on the board.

Lucas Gosland has indicated that he will retire in 2024 and it would be a good fit if Sophia took over the Chief Operating Officer of Produce role from him at that point. Lorenzo would like her to join the board now so she can be involved in key decisions, a temporary new director position can be created to facilitate this.

Ultimately Sophia will take over from her father when he retires in the future so the gift now will be sensible as it will mean that there will be no inheritance tax to pay in the future.

Lorenzo thinks that the 40% holding will be worth approximately £200 million.

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