



## Management level case

### *ABC Solutions*

Release date: November 2015

Mock exam 3

CGMA  
Chartered Global Management Accountant™

Powered by  
AICPA CIMA

#### Management Level Case Study Exam

This examination is structured as follows.

Section number	Number of tasks	Time for section (minutes)
1	1	45
2	1	45
3	1	45
4	1	45

The time available for each section is for reading, writing and planning your answer(s).

## Section 01

You have received the following email from Ken Burragh early in the morning.

From : Ken Burragh, Finance Director  
To : Financial Manager  
Subject : Future growth potential of ABC

Dear FM,

Good Morning!

As you are aware I was at a board meeting yesterday evening, which was specifically called for the discussion on ABC's future growth potential. Dennis Lim, the Chairman was emphasizing that in the near future with the release of Petaware 2015 and the increase in the use of the cloud and many a new technologies, ABC can achieve a much higher growth than what is achieving now. He pointed out that according to the latest financial statements ABC's revenue growth was a mere 3% which was not satisfactory given the high growth industry it is in.

Thereafter Andrew Gourlay mentioned that the fundamental principles of ABC should be solid as the first step since they were the basis for ABC's rapid growth in the past. He mentioned that the present managers of the consultancy service areas are less focused on these fundamental aspects such as long term focus, reliability, achieving deadlines and so on.

Then he requested me to suggest a suitable method to align the managers of the consultancy service areas with the achievement of the fundamentals of ABC. I assured him that a suitable method was the balance scorecard approach which would enable the non-financial fundamentals to be incorporated in performance measurement of the consultancy areas.

Late on Dennis Lim also advised Andrew that as the Chief Executive Officer (CEO) he should free himself of operational activities and concentrate more on strategic aspects. He stated that the leadership and direction of the CEO is vital at this crucial point where ABC can realize a huge potential. Andrew accepted this fact and also apologized to the board for not attending the prior two board meetings since he was attending meetings with clients of several key projects.

I need you to work on the below two points and prepare a report which includes:

- A draft balance scorecard with two measures per quadrant and a justification the selection for each of the measures.
- Explanation of the leadership and direction expected by Andrew as the CEO of ABC.

I will be at my office in 45 minutes, so kindly finish the above work by then and email me.

Thank you.

## Section 02

Later on in the day you received a phone call from Ken Burragh.

“Hi!

Thank you for the report you prepared earlier. I have to comment that the balance scorecard was interesting and valuable indeed.

I have another task for you. I met Colette Sanderson and she mentioned about a potential job with a multi-national consumer goods company which is considering the use of cloud services. According to her this job could improve revenues of ABC significantly since the company has many business segments which would want to utilize cloud services.

Furthermore Collette suggested that knowledge about this job was obtained by ABC from an expert consultant in cloud services named James White. James was a lead consultant who worked in E-Tech Solutions, which is a major rival of ABC. E-Tech Solutions is based in Kayland’s neighbouring country and has operations in all areas of Northern Europe including Kayland. Its huge reach is attributed to the economical price it offers clients for its services which is generally much lesser than what ABC would have offered.

Collette remarked that James was attracted to ABC particularly since ABC pays its consultants handsomely and whereas in E-Tech Solutions the pay was below market average. This is because it offered clients low prices, led to reduce pay for consultants. Collette was considering whether to give an offer to James.

She also stated that she believes since ABC is paying well to its consultants the risk of losing lead consultants would be low. I however argued that ABC should not only consider on the financial aspect of good pay but also on other non-financial aspects for the consultants.

I am bit disturbed with this discussion I had with Collette since I feel somethings are not proper.

I want your thoughts on the following matters:

- Explain the ethical implications of using information provided by the consultant, James White who is an ex-worker of a major competitor of ABC.
- How can ABC prevent the loss of a lead consultant to a competitor?

Please send me an email in 45 minutes since I will be meeting Collette again and want to discuss these matters concerned and come to a decision.

Thank again for your support!

Bye!”

### Section 03

You received another email from Ken which is given below.

From : Ken Burragh, Finance Director  
To : Financial Manager  
Subject : Future growth potential of ABC

Dear FM,

As I have mentioned to you earlier, our board is considering the expansion of cloud services together with the enlargement of data centre capacity, which in-line with its plan to increase revenue growth.

Attached herewith is a profile of a potential data centre for acquisition (EZ Data Ltd) which I received from Bippin today. Last week Bippin and his team have visited the data centre and initiated discussions (Refer Attachment 1).

Using the financial details provided by him I have done few calculations as below:

- Initial offer price by EZ Data Ltd = K\$ 65 million
- Net book value of total assets of EZ Data Ltd = K\$ 35 million
- Cash-flow based valuation EZ Data Ltd (NPV) = K\$ 50 million

My initial opinion is that the offer price is too high. The founder and owner of this company, EZ Data Ltd might be exploiting a higher profit from the sale since it knows data centres are in a rapid growth industry and in good demand. I want to be ready for a solid negotiation to bring down the price to an acceptable level which would be of benefit to ABC. As an initial step for the negotiation process I want you to comment on the supporting points for negotiating to reduce the offer price.

The final decision on this acquisition will be with the board of directors. However I am more concerned on financing this acquisition since you know financing is a core responsibility for us as finance professionals working in ABC.

Please Identify and discuss the types of potential long-term finance available for ABC to fund the acquisition of the data centre.

Kindly send me your reply within 45 minutes.

Thanks again,  
Ken.

## **Attachment 1**

### **Profile of Initial discussion with EZ Data Ltd**

- Name of entity: EZ Data Ltd
- Type of entity: Limited liability (Private)
- Established: 2010
- Ownership: EZ Global, an online retail company based in Northern Europe.
- History: EZ Data Ltd was created as in-house data centre for storage of EZ Global's data related to online transactions. An expansion of the data centre was started 6 months ago and has been halted due to an accident on site.
- Capacity: The data centre would increase the existing data storage capacities of ABC by nearly 40%.
- Location: 2kms' away from West Bay, Kayland (West Bay is a commercial centre located in the North of Kayland)
- Issues & Concerns: The expansion is only half completed. The reason for the stoppage of the expansion was an accident causing injury to an employee of the data centre. Construction work was carried out during the working hours of the data centre due to the constant demand of EZ Global for an early completion. The authorities have blamed EZ Global and charged a heavy penalty as well. Furthermore negative media coverage has led EZ Global to decide on disposing its data centre together with its board decision to focus on its core business of online retailing. The cost of finishing the works is estimated to be around K\$ 8 to 10 million.
- Opportunities: The existing data centre would increase data storage capacity of ABC by nearly 40% and the expansion would be able to add a further capacity as much as 50%. ABC would immediately have an existing client which is EZ Global. ABC also has the opportunity to offer EZ Global consulting services related to online retailing.



## Section 04

You have received the below e-mail from Ken.

From : Ken Burragh, Finance Director  
To : Financial Manager  
Subject : Consultancy Service Areas

Dear FM,

I just came back from a board meeting and I need some tasks to be done from you.

The board is reviewing the performance of each of the consultancy service areas and has requested me to carry out the financial analysis.

As a supporting for the financial analysis I want you to analyze the segmental performance of each of the five consultancy service areas. You may calculate gross profit margins and costs to revenue ratios as needed. The segmental financial performance details are attached as reference material 1.

As part of the ongoing importance placed on capitalizing on the demand for cloud services the board is thinking of merging the two consultancy service departments of 'Storage' and 'Data Center & Cloud'. The board expects ABC's operations would be more streamlined and would enable clients to obtain a quicker service and efficient service.

I want you to Identify and explain the impact and likelihood of four major risks that might affect the success or failure of a proposed merger of the two consultancy service areas.

And when we I talked about risk, I realized, we never looked at risk as a concept for the organization, can you please send me a quick note on this as well. Please explain how we as an organization, should identify, evaluate and manage risk using an appropriate method.

I will be awaiting your reply in 45 minutes.

Thank you,  
Ken.

### Reference Material 1

Segmental Financial Performance for each consultancy service areas for the year ended 31 December 2014 (All figures in K\$ million)

Service Area	IT Transformation	Storage	Data Centre & Cloud	Workspace	Cyber Security	Total
<b><u>Revenue</u></b>	<b>76</b>	<b>17</b>	<b>24</b>	<b>37</b>	<b>15</b>	<b>169</b>
<b><u>Cost of Sales</u></b>						
Manager and Lead consultants' fees	<b>6</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>15</b>
Other consultants' (Part/full time) fees	<b>11.5</b>	<b>4</b>	<b>1.5</b>	<b>8</b>	<b>1</b>	<b>26</b>
Travel Expenses	<b>2</b>	<b>1</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>6</b>
Sub-contracting expenses	<b>3</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>3</b>	<b>7</b>
Depreciation:						
Buildings, furniture & other equipment	<b>3</b>	<b>1</b>	<b>10</b>	<b>1.5</b>	<b>0.5</b>	<b>16</b>
Computers and related equipment	<b>2</b>	<b>0.5</b>	<b>3</b>	<b>1</b>	<b>0.5</b>	<b>7</b>
Amortization:						
Software & Intangibles	<b>3</b>	<b>0.5</b>	<b>0.5</b>	<b>1</b>	<b>1</b>	<b>6</b>
<b><u>Total Cost of Sales</u></b>	<b>30.5</b>	<b>9</b>	<b>17</b>	<b>17.5</b>	<b>9</b>	<b>86</b>
<b><u>Gross profit</u></b>	<b>45.5</b>	<b>8</b>	<b>7</b>	<b>19.5</b>	<b>6</b>	<b>86</b>