



**Institute of Certified Management Accountants of Sri Lanka**  
Incorporated by Parliament Act No.23 of 2009

## **May 2022 Examination**

**Apex Level**  
**ICS – 501 Integrative Case Study**  
**Scenario I**

*No. of Pages:14*

## Scenario I

### Institute of Science and Business Studies Ltd (ISBS)

#### **Introduction**

Institute of Science and Business Studies Ltd (ISBS) is a leading international educational establishment providing senior high school education to students, for London A/L examinations. “Advanced level is the final pathway to a prosperous future and therefore our concentration will only be to position us as the preferred high school educational institution at this level of a student’s life cycle” views expressed by Mr. Dilum Devapriya as quoted by the partner of ISBS, at an educational exhibition. The institute was founded in the year 2008 by partners Dilum and Sithum, both being graduates of Sri Lanka. While serving as colleagues at an international school in Saudi Arabia, Dilum teaching business studies, broached his entrepreneurial idea to Sithum an academic in mathematics in the science stream. Combining their respective academic disciplines, Dilum envisioned a successful educational business as their own business once return home. Together, they discussed at length the modalities to operationalize and realize their dream of commencing their own international school in the homeland. Coincidentally, both have had previous experience in teaching at international schools in Sri Lanka and were somewhat familiar with the working mechanisms of such establishments. However, in the beginning, Sithum a clever mathematician was skeptical as he was not having a clue of the high-level dynamics in the field of business. He always had somewhat of a superiority complex against the field of commerce and perceived businesses as that belonged to those with lesser intelligence and with rapacious intentions. Slowly but steadily Dilum was able to build confidence and belief in Sithum about running a good business venture. He was able to convince him of the societal significance of business entities as foundations of the social and economic prosperity of a nation and after some time, a socially responsible individual, Sithum became progressively passionate about this idea. Deeply committed to their proposed venture, both agreed to pool personal resources to make the school a reality.

#### **The beginning and growth of ISBS**

Dilum organized an extensive consulting session with a childhood friend of his, a leading professional in the field of education marketing and strategy, to discuss the business concept and receive advice. A further series of meetings and presentations took place during a long vacation prior to the commencement of the company. At these meetings, the partners were cautioned to be prepared to endure the hardships and likely initial financial sacrifices of commencing this venture as some educational institutions were already operating and competing in the industry. Nevertheless, both were further advised and were also hugely encouraged by the growing

demand and enormous prospects for quality high school for secondary education in the country grooming students for examinations in the United Kingdom. Discussing extensively with their families they systematically weighed risks and potential rewards guided by the consultant. The consultant also highlighted the proposed strategy and supported with financial forecasts on the basis of which both partners agreed to venture and contributed personal resources to commence business. Enormously confident of their respective teaching skills and abilities, the hardworking partners inaugurated ISBS by commencing business operations in January 2008, having incorporated the business in 2007. Sithum the senior partner was reaching his forty-sixth year while Dilum has reached his fortieth by the commencement of ISBS.

Both were married with two children: Sithum with a son and a daughter and Dilum had two daughters.

The initial business concept at the beginning is summarized below:

- Ownership: equal shareholdings between the two directors Sithum and Dilum.
- Vision: To be a leading school for senior high school education for UK based examinations, namely London A/Levels.
- Physical location: Colombo 06, rented building.
- Educational programs: A/Level (Full coverage only in the Maths stream and limited scope for Bio, and a similar scaled-down approach for the business/ Commerce stream where Dilum excelled).
- Commercial administration and financial responsibilities: Director, Jansen.
- Academic responsibilities: Sithum (including academic staff sourcing and administration for science streams). Similarly, Dilum was responsible for the business field.
- Principal: Student responsibilities, academic coordination and maintenance of the premises Mrs. Dilum (Claudia).
- Highlights: Sithum, one of the better-known mathematics teachers in Colombo and suburbs was also popular whilst was teaching previously at the high school classes during his former years prior to overseas employment.
- Market entry: Citing the early Japanese business success when entering world markets as a practical analogy, the consultant advised the partners to price their offerings at a comparatively lower price compared to the high-quality academic programs. Offered by ISBS. This market entry pricing strategy adopted by ISBS enabled it to secure a market share during its early years.

**Growth phase:**

Student enrolments kept gathering momentum with the excellent results ISBS students enjoyed, which became the springboard of the school's success. In full operation conducting three full streams of education for London advanced level examinations namely, Science Math, Science-Bio, and Business studies ISBS, has earned an enviable competitive position within a relatively shorter period. Commitment, passion, and hard work by the directors and all associated teaching staff led to growth in the student population, the main constraint became adequate space to accommodate expansion. In 2012, ISBS was housed in a spacious commercial building at Nugegoda. High rental payments for the new premises were not a real concern for the company that enjoyed a healthy cash flow having progressively increased their student fees to commensurate with the quality of education and student facilities. Members of the staff, particularly the teaching faculty, too were well rewarded as an institution with an employee and customer centric culture, a highlight at ISBS during this growth phase.

While Sithum was carefully managing the academic quality of the programs in the Science stream, Dilum a person with commercial acumen and under advice of his consulting friend, was more focused on promotional activities, student services, and facilities apart from his teaching responsibilities in the field of Business studies. They were virtually the heads of the two academic streams namely Science and Business studies. The pricing of the respective streams was also the prerogative of each head.

**In 2012 ISBS entered a notable phase in its corporate journey with the below developments:**

It was necessary that the company made a decision to acquire the premises they were occupying as the lease was coming to end. At this juncture the options were to renew at a substantial increase, purchase from then ownership or vacate. In principle, the directors reached a consensus to purchase which also brought about some financial challenges.

To make this acquisition a reality, the directors had to make a substantial contribution in addition to a bank loan to meet the purchase consideration. Apart from being a reluctant investor by nature and also having made sacrifices at the commencement of their venture by parting off a large part of his savings into the capital of ISBS, Sithum was facing the problem of financing his sons graduate and post studies in a prestigious US university. Accordingly, He was only able to contribute a smaller portion while Dilum stepped in at this juncture for raising the balance money. He and his wife raised the necessary balance funds by disposing of their ancestral properties and also obtained some personal loans to finance this investment. It was agreed that all such contributions will be routed through the respective directors' current accounts. Such an interim arrangement would not have impacted the balance of their equal shareholdings of the

company. Understanding the significance of a shareholding structure in the business, under the advice of their consultant, the partners reached a consensus to leave such balances in the current accounts. They also agreed to await finalizing a definitive decision until the retirement of Sithum at the age of reaching sixty years. Interest for these current account balances will be paid at a rate of 18 percent per annum being a preferential rate compared to the rate of 15 percent per annum applicable for the loans and overdraft facilities of ISBS. It may be assumed that these interest rates are applicable to the company for the purpose of this case study. If there are any differences in the current account balances as on the date of the retirement of any of the partners, such difference should be introduced by the shareholder with a lower balance, and thereafter all current account balances, any reserves as on the date of retirement should be utilized to issue shares so that the 50:50 share capital balances will not be disturbed.

ISBS emerged as a fully-fledged international school conducting classes for higher secondary school education with science and business streams. New teachers were recruited, and laboratory facilities were updated. A sports complex was set up with student recreation facilities.

In 2015, ISBS made another decisive move in its corporate journey when it decided to commence a regional branch of the school in Kandy a principal outstation city. A capable senior teacher serving ISBS for some time and who is a local from the suburban area of this town, was posted to head the newly established branch. By this time ISBS has established a brand image as a premier senior high school with a reputation for academic success. Sithum was considered one of the most sought-after mathematics masters and due to growing demand, his deliveries were restricted mostly to the principal location apart from having some revision lectures for the outstation branch in person.

### **Seventh year anniversary of ISBS**

#### **Address by Director to staff - Sithum- some highlights:**

“It’s our seventh year since we formed ISBS, and we have come on a long fulfilling journey. I am so fortunate to be a part of a quality academic institution and as you all know my passion is mathematics. I believe one must be passionate to fulfill his or her dreams and this will enable you to be a satisfied individual, provided you also work hard in this endeavor. It is my partner Mr. Dilum who got me involved in ISBS, I had no clue or interest in running a business in my life. It was he who showed me a path and a link between ISBS and my lifelong interests in teaching mathematics as much as providing a quality option for student education, which of course is our primary goal at ISBS

So, what I can advise you is that please don't just only lecture and impart knowledge to your audiences who are at a very vulnerable stage in their life cycles. Please also show them how to realize their life's ambition by studying methodically and with a clear ambition towards one's goals and the connection between motivation and success. I believe most of our students will be influenced by such guidance. Actually, in my experience and the interactions, I have had with students all this time, the very bright few have already established the connection between hard work, careful understanding of the subject matter, and their lifelong ambitions. But they are a reserved lot and it's up to us to guide and shape the thinking patterns of the majority.

.... Last but not least, once I retire, I will pursue my post-graduate studies in mathematics and my aim is to get a well-researched Ph.D. that has illuded me all this time.

**Address by Director- Mr.Dilum - some extracts:**

Overseeing commercial and business affairs of our school I have been associating many dear parents of our student participants and have witnessed interest and commitment to their children's education and successes. At times it's heartbreaking to see the sacrifices they make to meet the fees in private schools like ours which are in the top bracket. However, they never complain or grudge our fee structures being aware of the high quality that we try to achieve at all corners including the facilities and opportunities in areas such as sports, etc. Yet I am aware of the difficulties some endure.

Hence, I take this opportunity to make a welcome announcement for them as well on our 7th anniversary. From the next semester, all students will be entitled to a 60-day interest-free period to pay their respective annual fees and trust this facility will enable some consolation to those hardworking parents. This concessionary period will be applicable from the first day of a student's commencement of his or her at ISBS and every year up until the completion of their stay with us.

**10th Year Anniversary of ISBS and beyond**

Commencement of two further branches in outstation cities was another progressive development that ISBS celebrated on their 10th year anniversary in 2018. The directors appointed Senaka, a marketer by profession to head the outstation branches of the school. With such growth and the administrative complexities that arose from regional expansion, it was the consensus of the directors that such a position was needed to manage the expansion initiatives of the school. Being a manager with good leadership capabilities earned the respect of both directors within a short period of his appointment. Soliciting guidance from the respective academic heads in academic affairs and teaching quality etc., he asserted himself to become the administrator that also included certain important decisions such as regional promotions and pricing.

A further progressive development that was initiated at ISBS on its 10th anniversary is the formation of a 'board of governors' that will advise the directors and the senior management on a range of issues. The formation of this top-level apex advisory committee was based on the advice of some influential professional parents and can be construed a positive development improving its stature as an educational institution that has independent governance processes over academic and institutional quality. Further, such an advisory body in the form of a top-level committee that includes reputed specialists with industrial exposure is advantageous especially as the UK parent body for the London A/Ls is becoming increasingly oriented towards practical aspects, particularly in the field of business studies.

ISBS acquired its first outstation branch premises and the buildings in Kandy that took place just before the end of its financial year, 2021. The directors introduced a further Rs 50m at this juncture, that will be used in the form of the company contribution for the new acquisition as well for any future additional working capital needs. In doing so the directors took into account with satisfaction that the company's turnover has grown by nearly 100m in the year 2021.

Sithum's amount was a sum of Rs 15 m. At this juncture, a reassessment of the finances was carried out by Dilum assisted by the company's management consultant which resulted in a revaluation of the existing premises as well a careful appraisal of the financial results and the financial position. Accordingly, the company approached its main banker with whom they have established and maintained an excellent relationship over a long period, for the balance amount to acquire the new premises.

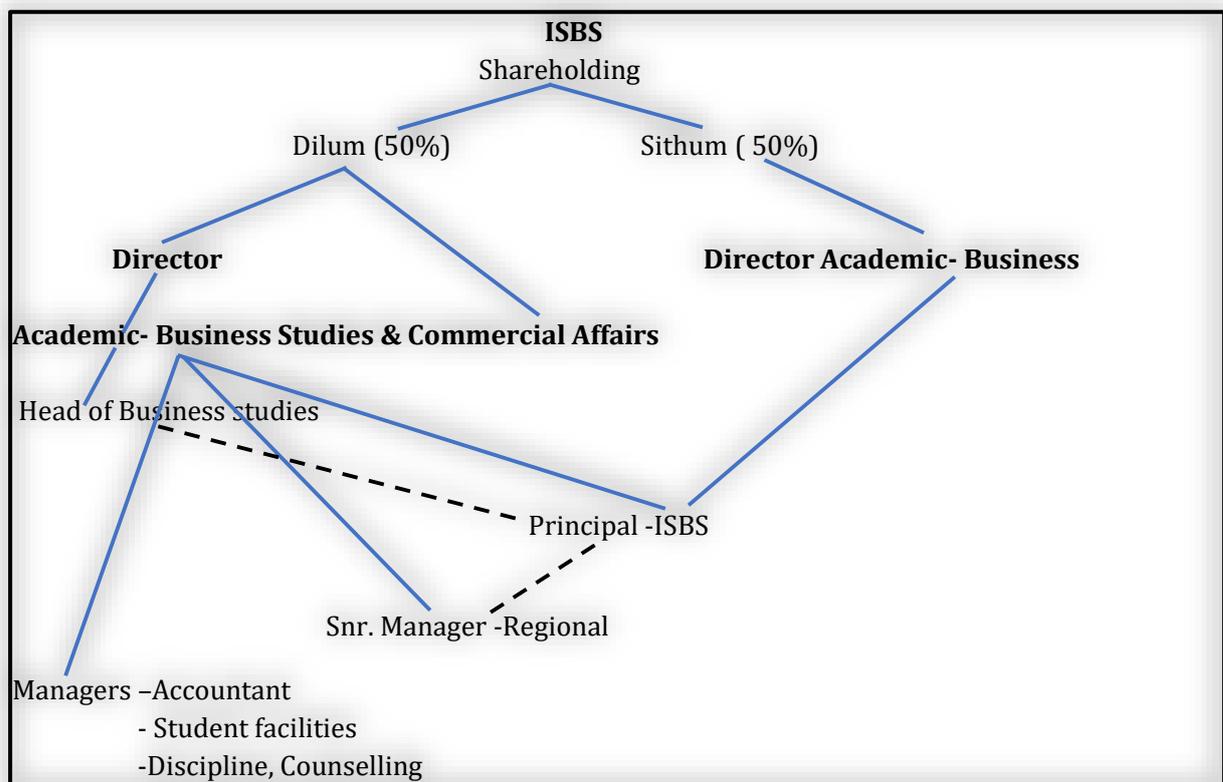
The accountant of the company compiled all information requirements and submitted to the banker that resulted in granting the balance finances required for the acquisition of this building and the premises. Taking a fresh look at the entire corporate situation and taking a forward-looking approach, a consensus was reached to grant an altogether a fresh long-term loan of Rs 400m, consolidating the previous long term loan facility and the additional amount for the new acquisition.

At this point, the long- term loans of the company accounted for Rs.400 Mn that will have to be repaid in seven equal installments at the rate of 15% per annum, with a two - year grace period to commence the capital repayments.

### ISBS marches on

The year 2022, the year of ISBS's 14th anniversary, was not devoid of any highlights and excitement. On the first of January, at the end of the usual January first festivities, a customary senior management meeting takes place in the board room and Sithum's son Christopher was inducted into ISBS teaching and administrative staff as their head of the 'business section'. With an honors degree in mathematics and an MBA from the prestigious 'Wharton University' and Wharton Business school in the US, he has filled a void because the experienced senior master who was teaching the principal subjects of this stream, the main live wire of the section, was about to retire by then. Despite being highly qualified, Christopher was slightly nervous when he was asked to report to his father's friend and the co-founder Mr. Dilum, under whose supervision this section of the school was functioning.

Given below is a rough sketch of the ISBS organizational structure that is currently in place after Christopher assumed duties.



## **A new phase in the life cycle of ISBS**

In the commercial world, the retirement of a principal founding partner and the resultant change of ownership in the context of a closely held company can be a highly sensitive issue. As resolute a personality as he is, Sithum politely declined several appeals from certain senior staff members to extend his services to ISBS and not to proceed with his planned retirement plans. Sithum asserted that he wishes to retire reaching sixty years on 31<sup>st</sup> March 2022. He requested the director-Dilum and his son Christopher at a confidential meeting, to make the necessary arrangements to finalize his retirement and indicated his wishes to appoint Christopher as his successor, with a suitable designation. As a principled person he is, it was suggested that whatever managerial succession be done under the advice of the 'board of governors' as well as seek legal advice to grant permission to transfer his shares at ISBS to his son.

The news of Sithum's retirement from the school was afloat since 2020 but the staff always felt there was a chance that he might continue. They had enormous respect for his principles, uncompromising and consistency in managerial practices, despite the difficulties in meeting the high-quality standards in the science stream. Perhaps it was a good blend of cultural dimensions between the two directors as Dilum was articulate and flexible in most administrative responsibilities.

Accordingly, Dilum invited Christopher to his office to discuss the issues in connection with Sithum's impending retirement. The below-mentioned subjects were taken up for discussion.

### **- Director's current accounts and the shareholding structure**

Dilum briefed the concept of the directors' current accounts that was initially started to channel temporary financial requirements at the initial stages of commencing ISBS, as running accounts, to record the movement of introduction and subsequent settlement of such advances. Immediately Christopher was able to recognize the logic of these stopgap financial arrangements, given the uneven cash flows where most receipts accrue at the commencement of an academic year and having payments throughout the year. Managing such a situation require carefully structured cash flow planning and arranging of short-term financial facilities to accommodate such unevenness in cash flows.

However, the more serious attention was regarding the advances made through the current accounts to finance real estate acquisitions and are outstanding pending finality of such balances with a timeline ending retirement of Sithum. This simply meant that it was necessary Sithum introduces the difference of Rs.120 Mn to maintain the shareholding intact.

- **The Company's financial health**

“Once we do this capital structure adjustment by converting all reserves to share capital you will note that our gearing ratio will approximately be 50:50 and that will be a lovely starting point for you to be in at the very commencement indeed” commented Dilum. He went on to mention that money introduced by Sithum could be used to pay off the overdraft and also with the conversion of all current account balances to equity will save approximately an annual interest of nearly 50 Mn. This will mean our profit before tax improves by this amount and accordingly our profitability which is currently under pressure will reach some respectability.

- **An expansion initiative at ISBS**

Among the growth initiatives under consideration is setting up a new division/SBU at ISBS by making a proposed merger with one of the premier specialist IT educational institutions named ‘Comsip Educations’. This institute founded by Mr. Selvam conducts a popular, high intensity post graduate program of only two months duration, that imparts cutting- edge knowledge with some patented data algorithms/languages in the field of data science and big data analytics. It is an area of study that is gaining increasing popularity because such programming capabilities enables strategists to understand continuous patterns of data and therefore highly valuable for companies operating in competitive environments that will result in more insightful strategic marketing knowledge.

The terms of engagement of the alliance are based on conducting an independent financial evaluation and the lectures will be conducted in one spare building at ISBS that was not intended to be rented out. The initial discussions also indicated a possible equity stake for the founding partner of Comsip Educations because of sharing their intellectual knowledge, the patents and the professional reputation that has been acquired by him with ISBS. The courses will be conducted by a team of lecturers coordinated and personally assisted by Selvam

The management consultant of ISBS has forecasted the below details in relation to the proposed acquisition of Comsip Educations that will help in assessing its financial feasibility.

**Program Title – ISBS/Comsip Post graduate diploma in  
Data Science and Big data analytics**

The forecasted annual demand and other details.

- |  |               |
|--|---------------|
| • No of participants                               | 1,500         |
| • Program fees payable by each participant         | Rs.100,000/-  |
| • Relevant variable teaching costs per participant | Rs.40, 000 /- |

- All lecturing will be conducted by a team of Comsip lecturers under strict supervision by Selvam and will be charged at the rate of Rs.40,000/- per participant payable by ISBS, that is categorized under relevant variable teaching costs, as stated above.
- All administrative responsibilities of this program will be overlooked by the ISBS staff and will be rewarded at the rate of Rs.10,000/- per student that will accrue to a pool to be shared by the members.
- The acquisition will be advantageous to ISBS as such an initiative will create strategic value as an educational institution sensitive towards innovation and keeping pace with contemporary technological trends.
- The cost for this proposed acquisition has an asking price of Rs.150 million.

**- Appointment of a new director**

Dilum took the opportunity of this meeting to inform officially and congratulate the appointment of Christopher as a director of ISBS with effect from 1<sup>st</sup> April 2022. Genuinely, Dilum appreciated the joining of a competent professional to the directorate with contemporary knowledge of the best practices in education. Though Sithum was a tower of strength in developing the institution to its present position, Dilum intuitively felt the need for fresh blood and more innovativeness for future growth and sustainability.

Intuitively, Dilum felt that there is more to managing a modern-day organization in a competitive environment especially being in an industry perceived by most businessmen as one with high, safe growth that can be susceptible to increased competition. His traditional formula for success is investing in real estate for outstation branches, enforce strict revenue budgets with SBU responsibilities for such achievement that will collectively meet the total costs of ISBS after attractive salaries being paid for competent lecturers, and a cash flow capable of discharging loan obligations. In his mind it was

“Total revenue -Total costs + Capital gains = Return for the shareholders “

### Further studies and some findings by the new director-Christopher.

- i. Finance -The 60-day credit to pay annual school fees- “a benefit that we have granted some years back to our students to pay the annual school fees at the expiry of 60 days, all most all parents seem to be availing themselves of this concession. I find it to be surprisingly true.”-Christopher.
- ii. Was surprised to learn that his father was never conversant with the financial information regarding ISBS and the customary monthly management meeting mostly centered on solving technical and personal problems of members of the staff.
- iii. Christopher, with a training background of the importance of making decisions based on facts and analytical insights, utilized the services of the company’s management consultant and his staff to answer a few key questions. Such effort was also supported by some research of the industry dynamics as well (i.e. some outsourced primary research by a reputed research organization) that brought about the below findings of the relevant ‘industry’, given as per Figure 1.

<b>Principal product/ market segments</b>	<b>Science- Mathematics</b>	<b>Science- Bio</b>	<b>Business Studies</b>	<b>Regional markets</b>
<b>Principal buying motives</b>	<b>(Rank Weight)</b>	<b>(Rank Weight)</b>	<b>(Rank Weight)</b>	<b>(Rank Weight)</b>
Excellence in examination results	2. 30%	1. 30%	3. 20%	1. 60%
Reputation of teaching staff	1. 40%	3. 30%	4. 10%	2. 20%
Student facilities	3. 11%	2. 30 %	2. 30%	3. 10%
Price /fees	4. 09%	4. 10%	1. 40%	4. 10%

**Figure 1 - Rank order of the principal ‘buying motives’ of the different segments, of the industry that ISBS presently operates**

- iv. Christopher has requested that for a proper strategic analysis of ISBS, the consulting team should construct and analyze the current ‘positioning’ of the different product offerings of ISBS preferably by way of constructing product positioning maps. For this purpose, he advised taking into account the findings of the quality attributes as per the above structure as in Figure 1, and their respective ‘pricing’ as practiced in 2022 by ISBS.

**-End of Scenario I-**

*-Please ignore the impact of Covid19 related issues for the purpose of this case study-*

EXHIBIT 1					INSTITUTE OF BUSINESS STUDIES (ISBS)							Appendix 1							
INCOME STATEMENT ( Management Accounts)					2020					2021					2022				
Description	SBU 1	SBU 2	SBU 3	SBU 4	Total	SBU 1	SBU 2	SBU 3	SBU 4	Total	SBU 1	SBU 2	SBU 3	SBU 4	Total				
	S/Math	S/Bio	B/S	Regional		S/Math	S/Bio	B/S	Regional		S/Math	S/Bio	B/S	Regional					
	(In Rs 000's)					(In Rs 000's)					(In Rs 000's)								
Student fees	307,450	183,840	163,800	167,873	822,963	419,669	152,495	162,162	185,080	919,407	436,246	128,096	160,540	204,051	928,934				
Administration					617,223					678,945					729,866				
Marketing					82,296					91,941					78,959				
Finance expenses					90,635					86,180					111,703				
Profit before tax					32,809					62,341					8,406				
Taxation @25%					8,202					15,585					2,101				
Profit After tax					24,607					46,756					6,304				
<b>STATEMENT OF ASSETS AND LIABILITIES</b>																			
<b>Non -Current Assets</b>																			
Property and Buildings (Valuation)					585,000					710,000					731,300				
Equipment ( at cost less depreciation)					47,000					51,700					56,870				
					632,000					761,700					788,170				
<b>Current Assets</b>																			
Inventories					4,000					6,000					8,000				
Receivables					137,161					153,234					154,822				
					141,161					159,234					162,822				
<b>Total Assets</b>					<b>773,161</b>					<b>920,934</b>					<b>950,992</b>				
<b>Current Liabilities</b>																			
Suppliers and Accrued expenses					16,350					17,068					30,670				
Bank Overdraft					100,235					70,535					80,686				
					116,585					87,603					111,356				
<b>Directors Current Accounts</b>																			
Sithum					35,000					50,000					50,000				
Dilum					135,000					170,000					170,000				
					170,000					220,000					220,000				
<b>Long term Loans</b>																			
					300,000					400,000					400,000				
<b>Share Capital &amp; Reserves</b>																			
Share Capital					50,000					50,000					50,000				
Reserves					136,576					163,331					169,636				
					186,576					213,331					219,636				
<b>Total Liabilities</b>					<b>773,161</b>					<b>920,934</b>					<b>950,992</b>				
<b>Note 1</b>																			
Rate (000's)	650	480	360	497		683	504	324	522		717	529	292	548					

ICS May 2022 Examination- Marking Grid					
Evaluation		Weightage	Competency assessment (Marks)		
			High level of application	Middle level of application	Low level of application
<b>Knowledge</b>	Technical knowledge (On Management Accounting, Financial Accounting & Business Management).	<b>30</b>	24-30	8-23	1-7
<b>Application</b>	Application of practical solutions based on the knowledge and skills gained through synthesis, analysis and calculative practices.	<b>20</b>	16-20	6-15	1-5
<b>Integration</b>	Examine a problem/ issue in a holistic sense through drawing from diverse functional disciplines.	<b>15</b>	12-15	4-11	1-3
<b>Prioritization</b>	Demonstrate a rational, balanced outlook supported with evidence to unearth issues and rank them in the order of priority.	<b>15</b>	12-15	4-11	1-3
<b>Decision</b>	Present viable decisions and implementable recommendations.	<b>10</b>	8-10	4-7	1-3
<b>Presentation</b>	Ability to structure answer clearly and legibly in a most appropriate logical sequence with recommendations and relevant references clearly.	<b>10</b>	8-10	4-7	1-3
<b>TOTAL</b>		<b>100</b>			