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

November 2021 Examination

Apex Level
ICS – 501 Integrative Case Study

No. of Pages:13
No. of Questions: 01

Instructions to Candidates:

1. Time Allowed : Reading and Software handling– **30 minutes.**

   Writing - **Three (3) hours**
2. Total : **100** Marks
3. This paper consists of two Parts.

   Scenario I: Published before the six weeks of the Exam.

   Scenario II: Unseen and the Questions.
4. Answer all question.
5. The answers should be in **English** language.
6. Only non-programmable calculators are permitted to use.

This examination was conducted online on Pearson VUE platform

Scenario I

Golden Sunshine Holidays Ltd

Golden Sunshine Holidays Ltd (GSH) was established in the early 90s by Bandula De Silva at his prime age of reaching 40 years. Backed by proven foreign travel related experience at Findlay Travels Ltd, a subsidiary company of a large, quoted corporate, and envisioning a growing tourism market in the country. He had sufficient confidence to leave his employment on early retirement to start his own business. Before his retirement he had been planning this initiative for some time and decided to commence his venture on a limited scope in terms of 'inbound travel' aimed at providing Sri Lankan holidays and tour experiences, primarily for low-end holiday makers from the European region. Using some corporate contacts built during his employment as the travel manager of a reputed company, Bandula configured few holiday packages mainly concentrating on the seaside resorts. Large number of hotels with different levels of comfort, price range, economy, and ease in travel, he opted for this area to launch his small business. Working tirelessly during the formative years, he was able to closely deal with his clientele, develop much needed contacts and build relationships that helped him to grow his small business.

Growth at GSH

Bandula invited one of his close friends Kalum, also being a schoolmate of him, to join GSH by the mid- nineties as the company was experiencing growth having expanded by that time into other segments of Sri Lankan holiday market such as up –country and wildlife tours. With a degree in Marketing and experience in the industry as a marketer, Kalum joined the company as the marketing director. By that time GSH had travel executives and other support staffs assisting in the airport, ticketing, transport, and travel- related functions customary in the travel business. Making profits, achieving growth, and with a healthy cash flow, GSH had the necessary financial ingredients of a successful small and medium scale business. With experience in launching new products and familiarity with different markets apart from tourism, Kalum's entry into GSH brought dynamism and a dimension of aggressiveness that paved way for extensions in the scope of the company's business horizons. The company also commenced catering for more up -market segments in the European tourism market that yielded higher profitability.

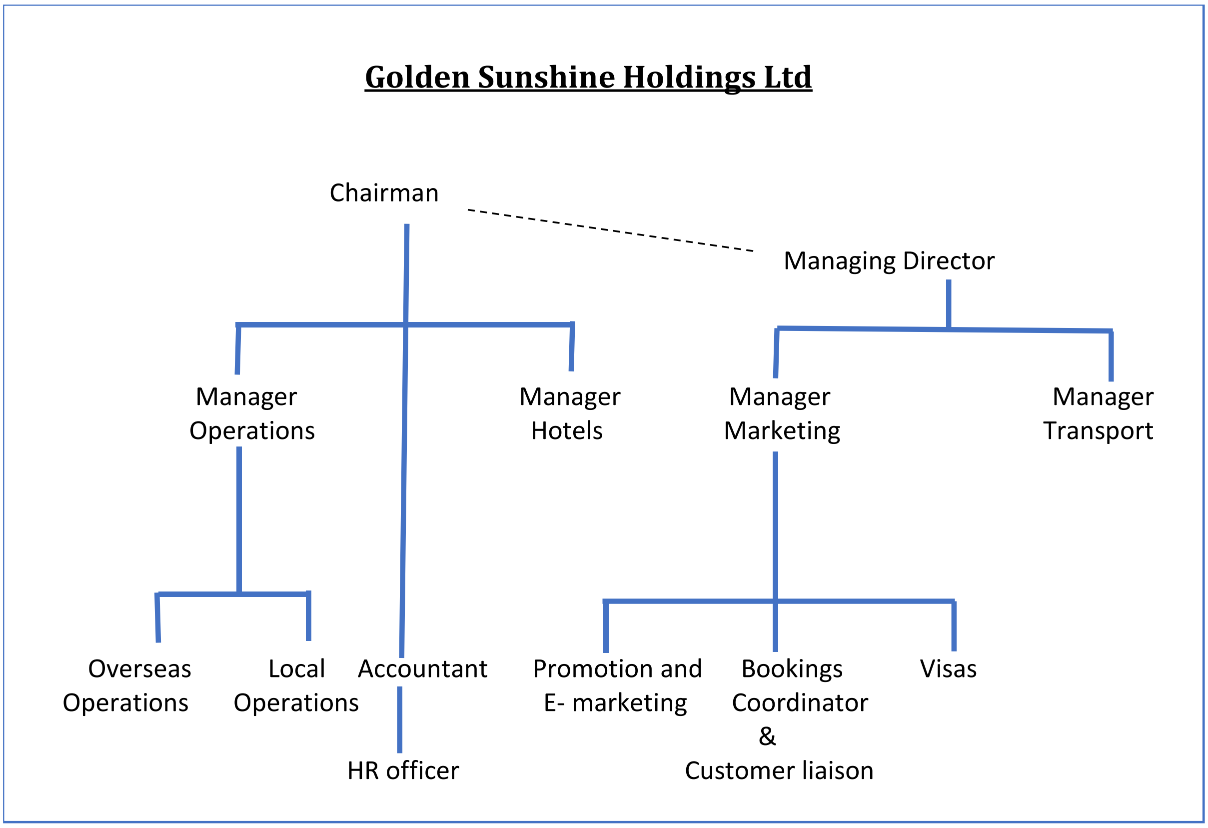
The second decade of the new millennium saw the emergence of GSH as a medium scale enterprise having spread wings into areas beyond Sri- Lankan inbound holiday and tourism market. As a dynamic entrepreneurial organization, GSH was ideally placed to capitalize on the enormous opportunities of the Sri Lanka's post -war tourism and travel market. By the year 2020 the company's operating scope comprised several categories of activity conducting business in:

- (IB & D): inbound Sri Lankan holidays and Domestic tourism (Sri Lankan holidays to citizens)
- (O/A): Outbound overseas holidays into Asian destinations
- (O/R): Outbound overseas tours into Asian sites of religious significance
- (T): Fleet of vehicles to facilitate customer transport and hiring to other tourist operators
- (V): Visa related operations
- (H): A small hotel and two guest houses

Bandula fully supported Kalum in these expansion initiatives with a strategic significance and lavishly contributed to the financial needs of the enterprise by harnessing his and his wife's family resources. Maintaining excellent commitment with bankers, they fully supported GSH with required financial support for the company's growth, diversifications, and acquisition of properties for the business. Kalum was appointed as the managing director in the year 2012 and Bandula functions as the executive chairman. In recognition of Kalum's contribution to the success of the company, he was gifted with 20% shares that form part of the current share capital of the company. Apart from a small hotel and two small guest houses, GSH currently owns an upscale corporate business premises on the ground floor of a modern shopping and office complex in Colombo that is sufficient to house all business operations.

Besides GSH operates an office in Holland as a coordinating and an overseas marketing office referred to as the 'liaison office' at GSH since the year 2015. This is owned and managed by Kalum's son who is a graduate from a university in Holland after studying in hotel management. However, to avoid any potential conflicts of their second generation, it was agreed between the directors that this office is run quite independently of GSH, and all their services will be paid by GSH on an agreed basis like an outsourced operation. Most of the company's European business is channeled through this office. Costs of different promotional programs are reimbursed by GSH on a cost plus a margin basis. Recently a proposal for the development of a company website to promote the inbound tourism business has been forwarded by the liaison office to be reviewed and approved by the head office prior to going ahead with this initiative.

Given below is the core management team of the company.
MM - Manager Marketing
MO - Manager Operations
MH - Manager Hotel sector
MT - Manager Transport



Recent developments at GSH

Chairman's address to the staff of GSH

Below is an extract of a minute from the staff meeting immediately following the finalization of the annual accounts of the company for the year ended 31st March 2020.

"We have worked committedly for nearly three decades in the Sri Lankan tourism industry having started as a very small business with humble beginnings. When I left a well-paid job to launch this company, I took a huge risk in my life. Perhaps when one takes such a risk such tension drives a person to give his or her utmost. Once Kalum joined GSH, that gave us strength to go into other areas beyond mere inbound travel. I believe that's how businesses grow progressively and get bigger and eventually very large enterprises.

Of course, may be like most companies we also have our share of problems and as you may be experiencing costs and cash have become our problem areas, in my view. I have discussed this with Kalum also and we both agreed, it's time to pause and critically analyze and evaluate our future and management of this company. As you know and I have discussed at earlier meetings also, GSH customer satisfaction according to our liaison office seems to have suffered and that has, in turn, affected our business. We both are not really sure how and when such things have taken place. Those with long service here I am sure that you are aware of how passionate we were about our customers. Their needs and careful attention to details have enabled us to build a loyal clientele. As you all know both of us took some time off from the business to be away to educate our children. May be or not, these slips happened during such absence, but it does not fair for us to assign blame at this point to different individuals. Also, it's pertinent to note that the markets have undergone changes along in a variety of dimensions from the time we started. We need to come into terms with these developments. Let us all resolve to improve in all angles so that we will be on a better footing to get into the next stage of our journey, together.

Last but not the least, one thing that skipped my mind was is to mention, as you are well aware, in our league of companies in the industry, GSH salary scales are considered to be on par with the highest-ranking competitors. I am sure you will agree we must also do justice for such kindness and therefore quickly understand where we fall short and remedy for such areas that will only provide sustainability for such scales to be maintained."

Bandula is an entrepreneur with operational expertise in tourism and Kalum predominantly with a marketing background value revenue as well as cash flow, as the lifeblood of a dynamic business. The cash flow of the business has experienced difficulties, since the purchase of the corporate premises in the year 2016, and particularly with the expiry of the grace period for loan repayments. These were indicative of some problems in the business and they both agreed at the beginning of the year 2020 that as both were fast approaching seventy years of their age, it's now opportune for them to look for succession. Bandula's son at that time was earmarked to lead the business when he eventually returns to the island from the UK in 2022. Until then they appointed Sudath, an experienced hotelier also with some exposure in transport operations as 'GM-designate' of GSH. His father was closely known to Kalum the Managing Director and is considered a hardworking, conscientious professional. The terms of the appointment were that he will be confirmed only on successful performance by implementing some strategies in the year ended March 2021, that will be evaluated by an external management consultant.

Immediately after appointment, Sudath recognized the incidence of liquidity problems that are being experienced and further deteriorating due to repayment of the loan taken to finance the corporate business premises. This was the loan taken on top of a long-term loan taken for business purposes prior to the purchase of the corporate premises of the business. This previous loan was around Rs100Mn in the year 2020 and is secured on GSH investments in the form of fixed deposits with the bank. He was also far sighted to understand that the company will have to develop businesses to higher levels that will only make the cash flow capable of meeting the total loan repayments. He persuaded the owners and initiated a discussion with the company's principal bankers to request them to re-schedule the long-term loan for the business premises and the capital outstanding of the existing loan of approx. Rs 100Mn. The request formulated was to couple these at a level of Rs 400Mn as of 31st March 2020, with a grace period of 24 months. It was undertaken by that time the business will formulate and submit their plans and cash flow forecasts while servicing the loans at an agreed rate of 11% per annum. During the discussions, it was indicated by the bank that if an inclusive and viable proposal can be submitted that incorporates acceptable financial forecasts supported by effective strategies, the bank will favorably consider rescheduling the loan over seven years based on terms where the loan principal will be paid over seven equal yearly instalments. Preparation of the long-term plan has been delayed expecting arrival of Dominic- chairman's son, who is scheduled to arrive in Sri Lanka by December 2021.He will be assisted by an experienced consultant in the field of strategy and finance. A decision was taken to invite this consultant in June 2021 to study the affairs of the firm in relation to the industry and to come up with an interim plan that will improve performance of GSH and capable of honoring the bank obligations from 1st April 2022. The idea behind this initiative was that the consultant will gain in-depth knowledge of the total environment of GSH by the time Dominic arrives so that he could more effectively guide the new strategic leadership of GSH as Dominic has been away from the local environment for some time. The consultant and his assistant conducted detailed analysis and further study of the business from a variety of dimensions that will enable him to express his professional opinion as to how GSH can make some improvements to the company's strategy and performance. During this study, he is also expected to express his views as to the effectiveness of changes effected by Sudath, the recently appointed GM -designate of the company.

The financial performances of the company, in comparison to the previous year, are as per the Appendix 1 in the form of extracts of relevant financial information from the financial statements. The consultant's study revealed the below information:

a) Appendix 2- depicts the sectoral performance of the company's different lines of business.
b) Appendix 3- An analysis and compilation of how different strategic business units within GSH can be understood along dimensions of 'market attractiveness' and 'business strength' of each such unit. In arriving at these conclusions, the consulting team has used proprietary data bases in the related industries and affiliations with their European counterparts.

-End of Scenario I-

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

Appendix 1

Golden Sunshine Holidays Ltd
Statement of Profit or Loss for the year ended 31st March

	2021	**2020**
	in Rs 000's	in Rs 000's
Revenue	595,000	476,000
Costs of Sales	416,500	309,400
Gross Profit	**178,500**	**166,600**
Other Income- FD interest	4,000	4,500
Selling and Distribution Expenses	44,625	38,080
Administrative Expenses	81,396	85,680
Operating Profit	**56,479**	**47,340**
Finance Costs	52,410	51,406
Profit Before Tax	**4,069**	**(4,066)**

Golden Sunshine Holidays Ltd
Statement of Financial Position as at 31st March

	2021	**2020**
	in Rs 000's	in Rs 000's
Assets		
Non- Current Assets		
Premises and Buildings (Valuation)	928,348	910,145
Equipment and Furnitures (W.D.V) *	197,243	187,323
Vehicles including the fleet (W.D.V) *	100,075	87,678
	1,225,666	1,185,146
Current Assets		
Inventories	16,666	12,345
Trade Receivables	8,559	6,340
Investments	50,000	50,000
Cash and Bank balances	343	567
	75,568	69,252
Total Assets	**1,301,234**	**1,254,398**
Equity & Liabilities		
Equity		
Share Capital	700,000	400,000
Reserves	54,587	332,315
Total Equity	**754,587**	**732,315**
Non-Current Liabilities		
Long -term loans	400,000	400,000
Current Liabilities		
Trade Creditors	57,139	42,325
Creditors -Expense	13,056	12,434
Bank overdraft	76,452	67,324
	146,647	122,083
Total Equity & Liabilities	**1,301,234**	**1,254,398**

* New purchases included

Appendix 2

Golden Sunshine Hotels Ltd - Segmental Breakdown

	2021 - in Rs 000's		2020 -in Rs 000's	
	Revenue	Gross Profits	Revenue	Gross Profits
Company	595,000	178,500	476,000	166,600
Inbound/ Domestic	205,870	61,761	214,200	74,970
Outbound	210,630	66,117	142,800	49,980
Hotels*	119,000	29,619	71,400	21,420
Transport*	59,500	21,003	47,600	20,230

* Capacity utilization in 2021 - 70%

Appendix 3

Market Attractiveness and Competitive Position of the different divisions of GSH

Business Units in GSH	Relevant Market Attractiveness Factors	Weight	Rating (H to L)	Relevant Business Strength Factors	Weight	Rating (H to L)
a) i) In-bound - Foreign	i. Overall market size	0.3	H	i. Market share	0.4	L
	ii. Annual market growth rate	0.3	H	ii. Brand reputation and promotional effectiveness	0.5	L
	iii. Historical profit margin	0.4	H	iii.Quality of the offerings	0.1	H
ii) In-bound - Domestic	i. Overall market size	0.5	L	i. Strength of relationship marketing	0.5	H
	ii. Annual market growth rate	0.4	L	ii. Brand reputation	0.1	L
	iii. Competitive intensity	0.1	L	iii. Quality of the tours	0.4	H
b) Outbound	i. Overall market size	0.5	L	i. Operating cost efficiency	0.4	L
	ii. Economic factors	0.5	L	ii. Product quality	0.4	H
				iii. Promotional effectiveness - Relationship marketing	0.2	H
c) Hotel sector	i.Social factors	0.35	H	i.Product quality	0.35	H
	i.High income category presence	0.4	H	ii.Brand reputation	0.35	H
	iii. Annual market growth rate	0.25	H	iii. Capacity utilization (ability to operate above B) Capacity during off seasons)	0.3	L
d) Vehicle fleet	i. Political stability	0.7	H	i. Technical soundness of the fleet	0.5	H
	ii.Long weekends	0.3	H	ii.Ability to hire when vehicles idle	0.5	H

Scenario II

Given below are additional information and findings that the consultant came across during his assignment:

a) Weaknesses in overseas marketing due to inadequate and lack of systematic effort at the Holland liaison office designated for this purpose.

   To get a firsthand idea of the problem the consultant, Sudath and Bandula had an overseas business visit and it appeared that the liaison office in Holland has somewhat neglected the relationship with the agency network and the respective sub agents in different territories. Such a comprehensive overseas marketing mechanism and an active, effective agency network is considered as one of the 'key success factors' in running a successful inbound tourism business.

b) Regarding the drop in gross profit of the Inbound/domestic division amounting to Rs 23Mn, a drop of over 17% (i.e., 75Mn-62Mn) in 2021, Sudath commented as:

   "I was able to compensate the drop in turnover from the foreign inbound segment by aggressive marketing and promotion among domestic holidaymakers. This effort somewhat substituted the drop in revenue from foreign tourists and hope to consolidate this move further in the future as well.

   Also, I was able to increase the occupancy of our hotel and the guest houses that were nearly 70% occupied during 2021 and was partially assisted by domestic tourism of GSH. Also, some of these tours utilized our own transport.

   I also corrected the pricing of the outbound tours in 2021 as the previous margins charged were much higher than the competitive rates. I plan to grow this area by recruiting an experienced outbound tour professional from the industry.

c) Sudath initiated certain cost rationalization in the areas of Administration and Marketing expenses once taking office and having conducted some studies as to the duties of different staff members across all functions.

d) As per the current accounting practices the senior management salaries of different divisions of GSH are charged under 'administrative expenses' due to the confidentiality of such expenses.

e) Marketing Manager also agreed with Sudath's comments above and mentioned that he is also making considerable effort to improve the domestic tourism marketing area as well as to grow the outbound market by adopting more market penetrative strategies.

f) As per the Operations Manager of the Inbound section, low customer satisfaction mentioned by the Chairman is not related to customer service levels of the foreign tourists but more in relation to processing delays of bookings confirmation and related visa operations.

He also did not appear satisfied with the manner how performance is managed and evaluated at GSH and was of the opinion GSH practices fall much short of current industry standards among the leading competitors in the company's strategic group.

g) Gross profit margins of Domestic tourism are much lower than the margins from the foreign holidaymakers.

h) Sudath is considered as a dynamic, results oriented top manager with leadership qualities. However, his limited exposure in the inbound tourism market seems to be a weakness. He mostly relies on the marketing manager who has claimed relevant expertise in this field at the point of joining the company three years ago.

i) Development of the company website as an integral marketing platform with appropriate attributes, is considered an important strategic marketing capability for GSH. The consultant is expected to guide an internal task force that also include the company accountant in evaluating the proposal forwarded by the 'liaison office'. It will be necessary to critically examine whether the proposal conforms to quality attributes that will strategically assist GSH in its marketing effort.

Sudath calling the accountant of GSH instructed him to obtain some guidance from the consulting team and to lead the evaluation of the proposed website that will assist in e-marketing of GSH offerings to the foreign market. Accordingly, the accountant after completing the financial aspects of the competing offers, along with the marketing manager has sought the guidance of the consultants. The primary objective here is to understand how effective is the GSH's website capability, from the point of view of the prospective customers.

j) Going forward, Sudath is confident of operating the Hotel sector and Transport sectors well beyond their breakeven points and at around 90% capacity utilization, irrespective of inter divisional assistance through these facility utilizations. To operate at this level an additional yearly fixed costs amounting to approx. 4.5Mn will have to be incurred for both divisions and since Sudath has already brought in cost savings in 2021, this increase is considered acceptable.

k) The Chairman of GSH is keen to find out how the board can measure the 'real' profitability of GSH and its divisions, explained to him based on last financial years performance as an example.

The WACC can assumed to be at 20%, which has been based on an industry average.

-End of Scenario II-

You are required to:

Assuming you are the consultant appointed by GHS Ltd, submit a consulting report to the Directors of Golden Sunshine Holidays Ltd comprising following:

(Given this is an 'integrated case study', you are advised to carefully read all the sections listed below and understand the interactions between the areas, prior to organize, structure and present the answer)

A) **Critically commenting** on the performance of the 'portfolio of businesses' of GSH, from a corporate level strategy analysis perspective.

(15 Marks)

B) **Identifying and justifying** the strategic issues and forwarding **recommendations** that will improve strategic performance of GSH. These should also enable the company to service the financial obligations to the financial institutions, as discussed in the pre-seen of this case study. Support your answer with appropriate calculations and clearly state the assumptions, if any, that underlie your computations.

(35 Marks)

C) **Identifying** the strategic issues that GSH needs to address from a strategy implementation perspective and **recommendations** that could possibly address resolution of such issues.

(20 Marks)

D) **Recommending** the quality attributes that need to be considered when developing the GSH website.

(10 Marks)

E) **Advising the** Chairman GSH how to measure and understand the 'real' profitability of the company and its constituent divisions.

(10 Marks)

F) **Overall Presentation.**

Organized presentation with clearly structured sections in submitting your report will be taken into consideration in awarding marks in this examination.

(10 Marks)

[Total 100 Marks]

Information, details and required advice discussed under both 'Pre-seen' and 'Unseen' sections of this case study, will have to be taken into consideration.

Given this examination is conducted on an online platform, you are not required to support your answer with any diagrammatic or graphical presentations.

*(** Ignore the incidence of Covid-19 impact, for the purpose of this 'academic exercise' in the form of an 'integrated case study')*

-End of the Question Paper-

ICS -November 2021 Examination- Marking Grid					
Evaluation		**Weightage**	**Competency assessment (Marks)**		
			High level of application	**Middle level of application**	**Low level of application**
Knowledge	Technical knowledge (On Management Accounting, Financial Accounting & Business Management).	**30**	24-30	8-23	1-7
Application	Application of practical solutions based on the knowledge and skills gained through synthesis, analysis and calculative practices.	**20**	16-20	6-15	1-5
Integration	Examine a problem/ issue in a holistic sense through drawing from diverse functional disciplines.	**15**	12-15	4-11	1-3
Prioritization	Demonstrate a rational, balanced outlook supported with evidence to unearth issues and rank them in the order of priority.	**15**	12-15	4-11	1-3
Decision	Present viable decisions and implementable recommendations.	**10**	8-10	4-7	1-3
Presentation	Ability to structure answer clearly and legibly in a most appropriate logical sequence. With recommendations and relevant references clearly.	**10**	8-10	4-7	1-3
TOTAL		**100**			