



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

## **November 2023 Examination**

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

*No. of Pages:13*

## Scenario I

### Wholesome Caterers Ltd (WCL)- 'Affordable Luxury, Healthful Convenience'

#### *Family Business – Future generational growth or ambitious declines?*

Sri Lanka over the years has witnessed resounding success stories and some painful failures in the realm of family businesses and companies. As much as any other company, a family business also has to experience the phenomenon of the corporate life cycle as much as the dilemma of succession. It is evident in our country's business sphere that some founders have painstakingly envisioned and systematically approached competencies needed in meeting future challenges and appointments for the strategic leadership of their businesses. On the other hand, some others did leave it to the inevitable logic of 'birth right' as taken for granted succession only by the family members for future top managerial appointments.



#### *The Founder:*

Senadeera, a hardworking small-scale building sub-contractor with humble beginnings commenced operating canteens as his line of business which he found more consistent and less stressful, devoid of considerable complexities and meeting conflicting demands of his former business. While being a contractor, he acquired sufficient operational knowledge and some useful principal areas that his new business model needs to come to with terms and be successful in operating this line of business. With a natural flair for managing people and an amiable personality, fascination for food, and attention to detail, he also had a liking to providing a decent meal for the working population as a livelihood. Constantly observing operational modalities of the canteens in the respective work sites in some large business organizations, he had a vision of being a successful canteen operator and a belief that the provision of food as a business would

always be a winner irrespective of economic volatilities. Accordingly, he phased out his original business, and at a point, he was able to sell his existing operation as a going concern to a competitor.

The proceeds of the existing business and savings enabled him to acquire the equipment and utensils to commence the new canteen operation business that he commenced with the assistance of some contacts, he was able to establish a company director who gave him his initial breakthrough in a professional medium scale garment manufacturing organization.

Canteen operation has always been in existence and was considered a business that was specialized by a few traditional operators. However, macro-environmental forces in the form of an increasing female workforce in general, expansion of garment sector factories in particular with large-scale manufacturing sites, and a shift towards a societal habit of having meals purchased from their workplaces. etc. were among contributory factors in the growth of this type of business which basically is in the form of providing a central restaurant facility by organizations, primarily for the benefit of their workforce and at times that can accommodate customers as well. From a canteen operator's point of view, apart from food being such an integral part of life and considered an absolute essential in constant demand, a steady cash flow is one of the prime advantages of this business model. Always being a victim of cash flow delays in the construction business, this was a welcome change for Senadeera. As usual, working hand in hand with his staff and involving them in day-to-day operational decisions, he also took responsibility for managing the supplies of food items, quality control of same and storage. Senadeera never took time off to randomly taste food to ensure meal quality. He also maintained harmonious relations with the supervisory staff and employee representatives of the relevant decision-making committees of his client organizations in relation to staff welfare but always fell short of resorting to any unethical practices and always encouraged such values all-round. A man with principles, achieving the delicate balance of satisfying institutional administrators and the end-consumers, food safety concerns and being endowed with a motivated, cultured workforce, enabled 'Senadeera Canteen Operators' (SCO)- (the registered name of this new business) gain recognition from the business's formative years. By 2016, the business was enjoying steady growth and profitability operating its business that targeted the garment sector in general and SCO has achieved confidence as a reliable competitor mostly concentrating in the Piliyandala area. Intuitively Senadeera found it is easier to concentrate in an industry sector that he is familiar with the buying habits, even though a lower price is a key factor of success. However, as a man with principles and respect for human values, he was conscious of the meal quality as well and worked tirelessly on the wisdom that such healthfulness can also be sustained through a lower cost structure all-round. As a canteen operator primarily for sizeable institutions, all such business has to be competitively obtained through tenders, complying with stipulated tender

conditions, and selected through a competitive tender evaluation process. Among key tender requirements are the abilities of the tenderers to supply a specified, standardized range of meals offered at reasonable prices under hygienic conditions, reliability proxied by previous experience, and proof of financial stability backed by performance guarantees. Further, it is customary to have an item referred to as 'rental value' that denotes the amount each competitor is offering the client organization as the annual 'rental value' to hire the client's facilities to offer their service and is an item of income for the client organization concerned.

***Appendix 2-*** *is an extract of a sample evaluation structure adopted by a particular organization to select competitive offerings amongst several competitors for their canteen operation.*

*Hence in an economy like Sri Lanka where affordability is at a premium, earning a steady return as a canteen operator is more than challenging and requires carefully planned and implemented operational effectiveness.*

*Life's unpredictability:*

Uncertainty in life struck the Senadeera family in February 2019 when Mr. Senadeera met with an almost fatal accident that led him to be paralyzed with several other medical complications and was bedridden until his demise in March 2019. It was such an untimely happening at an inopportune juncture for the family, with his three children yet to complete their education. The youngest and only daughter studying for advanced level and the two sons were been educated overseas, the eldest about to enter a university pursuing a degree in hospitality management at a Norwegian university.

Mrs. Senadeera as a fully dedicated housewife and not accustomed to the usual complexities of a business, found this unfortunate situation an extremely difficult one to cope with. After deliberations and family discussions, she was driven to seek the assistance of one of their close family members with administrative experience and higher qualifications in marketing as a senior sales manager of a reputed private sector organization - Malcom, who agreed to resign his job to take up the full-time responsibilities of SCO.

An outgoing personality, Malcom found this new experience very stimulating and after some months in his new environment envisaged opportunities to grow and expand SCO building on its solid foundation and reputation established by the founder. In his perspective, to meet the growing financial needs of the Senadeera family and keep pace with rapid market developments, SCO needed to make some changes to its traditional business model. This entailed transformation of an entrepreneurial small business to a company structure and staffing that reflect a standard company structure that he is quite familiar with. He was able to recruit some

additional staff in marketing and operations that will support expansion initiatives also, in the form of new market spaces and product offerings.

*Some key changes at SCO by March 2021, recommended and implemented under Malcom's leadership:*

Mrs. Senadeera became increasingly reliant on Malcolm's leadership in running SCO and also in providing sufficient resources for her family commitments including children's foreign education. In fairness to Malcom, he kept Mrs. Senadeera informed of all changes being affected and the business logic underscoring such developments, both internally and externally.

- Need to earn more profits and therefore initiatives to increase turnover and business expansion.
- Pursuit of new marketing opportunities by initially extending the scope of original SCO to wider market segments and eventually with a vision of making SCO a limited company with footholds in the hospitality industry.
- Creating a proper business structure at SCO with functional specializations such as marketing and more up-scale food preparation capabilities so that it will be prepared to provide a wider range of food options beyond a pure canteen operation of standardized basic meal offerings.
- Upgrading the kitchen equipment, utensils and refrigeration equipment will enable entering new market spaces within the food industry.
- Recruitment of capable staff with modern knowledge and skills that will strengthen the existing canteen business and proposed expansions therein, as well as a launching pad for the commencement of a catering business as Malcom's future vision. These include the establishment of support service functions that include an Accountant - 'Costing & Finance' and an HR officer and all these have been implemented by 2020.
- Renting suitable office space that will enable expansions envisaged and will release part of the existing rented space of the SCO office to provide accommodation to the staff of the company. Such additional benefits for staff will increase their commitment and help with staff retention.
- Emphasis on tactics such as entertainment for promoting business with key buying influencers.
- Strong emphasis on controlling direct variable costs that will safeguard the gross profit margins.
- SCO was made a limited company on 1<sup>st</sup> April 2021, incorporated as 'Wholesome Caterers Ltd (WCL)-

- Share capital consisted of 90% for Mrs. Senadeera and a 10% minority holding allocation to Malcom. Both of them were appointed directors of WCL.

*Winds of change at WCL:*

On completion of studies the eldest son of the Senadeera family – Dulan arrived in the country in January 2023. Apart from the qualification of his degree specializing in front office operations, he also has followed a short course in finance and accounting. Despite being informed of the changes taking place at their company at regular intervals by his mother to her understanding, Dulan never took time to study the affairs of their family business in sufficient depth during his studies. On Dulan's arrival, it was earnestly appealed by his mother and the siblings, of the importance of him playing an assertive role in their family business. Even though all the financial needs of the family, which were at a high level in the past few years have been met with due care and without undue delays, instinctively she also was aware that certain company payments and increased levels of expenditure including overseas credit card payments of the children were met with difficulty.

Mrs. Senadeera was also aware of considerable change and growth of activity taking place in their business compared to the relatively calmer business climate she has been accustomed. As a director, she was a signatory for all kinds of documents that needed to be signed for financial institutions and also for other commercial needs such as tender submissions, registrar of companies etc. She perceived such heightened and urgent documentation was indicative of the high levels of activity, financial issues, amongst increased dynamism of the business.

With enhanced maturity, Dulan decided to get fully involved with their business but was also conscious of the invaluable assistance rendered by Malcom during their most difficult phase of life as much as the sacrifices made by him leaving a well-paid job at a reputed organization when he took reins of the business since 2019.

Warmly welcoming Dulan to understand the developments and study the affairs of his family business, Malcom shared all information and explained his actions, experiences, and challenges confronted during his stay with the Sendeera family. Both of them also agreed to get some professional advice from Linton- a friend of Dulan and a financial consultant with exposure to food and restaurant industry sectors in Sri Lanka. Malcom also confessed that the record-keeping of the company may not have been to the contemporary standards due to pressures of work and lack of knowledge of SCO's business model when he first joined the company in 2019. Accordingly it was decided that they would engage Linton as a professional consultant to guide them into charting a proper future direction, should there be a need for any major changes. The newly

recruited accountant by Malcom who was already updating the records of the prior periods was instructed to work with the consultant.

Accordingly, Linton and an assistant of his commenced their studies by concentrating first on preparing a draft set of management accounting statements (as summarized below in appendix 1 ) that they managed to compile and are in the opinion of being sufficiently reliable for making further analyses and future decisions.

### ***Appendix 1***

Senadeera Canteen Operators (SCO) & Wholesome Caterers Ltd-(WCL) - Draft Management Accounting Statements:

- Draft Income and Expenses and statement of Assets and Liabilities - For the year ended 31<sup>st</sup> March 2019- Senadeera Canteen Operators (SCO)
- Draft Income and Expenses and statement of Assets and Liabilities - For the year ended 31<sup>st</sup> March 2021- Senadeera Canteen Operators (SCO)
- Draft Income and Expenses and statement of Assets and Liabilities - For the year ended 31<sup>st</sup> March 2023 - Wholesome Caterers Ltd-(WCL)

#### *Discussions between Malcom, Dulan, and the consultant -Linton*

Upon a request by the consultant, Malcom summarized certain changes that he implemented consequent to his leadership at SCO during the phase that spanned up to the two years ended financial year ending 31<sup>st</sup> March 2021, and thereafter for the subsequent two-year period ending 31<sup>st</sup> March 2023.

#### *Two-year period ending 31<sup>st</sup> March 2021*

- a) Investments were made in fixed assets to update and expand the existing kitchen and office equipment that will help improve the stature and also expand the business volumes. A new and a better-looking premises was also rented in addition to the existing modest office space. Further consequent to the need to accommodate increased personal expenses of the family, a salary of Rs 250,000/=per month was paid to Mrs. Senadeera and as a similar salary himself as the new administrator. Previously Mr. Senadeera was only paid a salary of 100,000/= per month. Both these expenses have been accounted for, spread under support staff costs, operational and marketing and sales expense headings.

Any additional expenses on account of the family were routed through the owners/director's current account and not as expenses.

- b) Rationalization of business processes in the operations and shared services with the recruitment of supervisory staff in the operations, and recruitment of an accounting officer and an HR assistant where previously such have been outsourced at some minimal costs.
- c) Replacement of some key existing kitchen staff because of their resignation as a result of being attracted by a competitor.
- d) Expansion of the business's market scope by entering the public sector institutional segment to compensate for the loss of two key existing customers from the garment sector. SCO was successful in obtaining operations of a large public sector educational institution in March 2020 where the price was one of the key determinants and Malcom reckoned that his initiatives in reducing direct product costs were instrumental in this successful entry into the public sector.
- e) As a marketing professional, Malcom explained his desire to increase the turnover of the business and also mentioned that the business's volume has also increased by 20% in the year ended 31<sup>st</sup> March 2021 compared to the year ended 31<sup>st</sup> March 2019- i.e. the financial year, immediately before he took over. It was also mentioned that entering the new market segment for the canteen operation largely assisted towards this volume increase. He further took the opportunity to mention his satisfaction of being able to make a higher overall profit even after absorbing all these strategically oriented developments with a better future in mind, and despite an increase in the overall cost structures.

*Two-year period ending 31<sup>st</sup> March 2023*

- a) Malcom lamented that no growth of the canteen business has taken place in the Y/E 31/03/2023, compared to the Y/E 31/03/2021.
- b) Malcom was concentrating heavily on establishing the new catering business line at WCL that he had been strategizing since 2020.
- c) Currently WCL Ltd.'s turnover in the Y/E 31/03/2023 also benefitted from catering at wedding receptions, and at conferences held at various institutional locations including at professional organizations. Understandably these business opportunities are only limited when such events take place, other than in hotels where food is already available in-house.



- d) Wholesome Caterers Ltd is positioned as a catering service that differentiates itself on the basis of affordable luxury with a touch of wholesomeness and healthfulness that has enabled the company to earn superior margins offering high product quality coupled with professional service.

*Performance of the **Canteen** Operation in the financial years from 2020-2023 – further Analyses by the Consulting team*

- For the year ended 31<sup>st</sup> March 2021, compared to the year ended 1<sup>st</sup> April 2019, the overall weighted average price charged for the different meal categories served by SCO, shows an increase of 10%.
- Overall weighted average overall price increase of different food items used by SCO for the meals offered has increased at the rate of 7.5% per year, during these two financial years under Malcom.
- -For the year ended 31<sup>st</sup> March 2023, compared to the year ended 1<sup>st</sup> April 2021, the overall weighted average price charged for the different meal categories served by SCO shows an increase of 10%.
- For the year ended 31<sup>st</sup> March 2023, compared to the year ended 1<sup>st</sup> April 2021, an overall weighted average price increase of different food items used by SCO for meal preparation, has increased at the rate of 3% per year, during these two financial years.
- The market growth rate for canteen business operations during this two-year period has been at the rate of 5% per annum.
- In the year ended 31<sup>st</sup> March 2021, 20% of the turnover was resultant out of the new market segment and in the year 2023 the corresponding figure was 30%.

**Note**

- Ignore any environmental forces such as Covid 19 prevalent during the periods of this case study and only consider changes specifically mentioned in Pre-seen and Unseen.
- Ignore Taxation

<b>Appendix 1-Senadeera Canteen Operators (SCO) and Wholesome Caterers Ltd (WCL)</b>					
Draft- Financial Statements					
<b>Income and Expenses (DRAFT) in '000s</b>					
<b>Year ended 31st March</b>					
	<b>Senadeera Canteen Operators (SCO)</b>		<b>Wholesome Caterers Ltd (WCL)</b>		
	<b>2019</b>	<b>2021</b>	<b>2023</b>		
	Canteen	Canteen	Canteen	Catering	Total
<b>Income</b>	60,000	79,200	87,120	60,000	147,120
<b>Less: - Cost of Sales</b>					
Rental Value	3,000	5,544	6,098	0	6,098
Costs of Food items	45,600	53,856	63,598	36,000	99,598
Income less meals and rentals cost (GP)	<b>11,400</b>	<b>19,800</b>	<b>17,424</b>	<b>24,000</b>	<b>41,424</b>
Other Income (FD interest)	1,000	0	0	0	0
<b>Total Income</b>	<b>12,400</b>	<b>19,800</b>	<b>17,424</b>	<b>24,000</b>	<b>41,424</b>
Staff Costs - Kitchen	2,640	2,376	3,485	7,200	10,685
-Support	1,980	2,376	2,614	3,600	6,214
Overheads - Operational	2,400	2,376	2,138	2,400	4,538
• Administration	600	3,168	3,326	2,400	5,726
• Marketing and Sales	300	2,376	1,188	1,800	2,988
• Rental charges-premises	600	1,200	1,260	1,800	3,060
Financial Expenses		3,168			10,000
<b>Profit /Loss before tax</b>	<b>3,880</b>	<b>2,760</b>	<b>3,413</b>	<b>4,800</b>	<b>(1,787)</b>

<b>Asset and Liabilities (DRAFT)</b>					
<b>Non-Current Assets (approx. valuation)</b>					
• Kitchen Equipment	5,000	15,000	15,000	16,000	31,000
• Utensils	850	2,200	1,800	3,000	4,800
• Refrigeration equipment	700	6,500	6,000	12,000	18,000
• Furniture and Fittings	600	3,500	3,000	4,000	7,000
• Fixed Deposits	8,000				
	<b>15,150</b>	<b>27,200</b>	<b>25,800</b>	<b>35,000</b>	<b>60,800</b>
<b>Current Assets</b>					
• Inventories- Food stock	798	1,709	2,544	960	3,504
• Receivables	50	2,475	2,723	1,200	3,923
Deposits Refundable -Canteen Operation	2,000	6,000	5,000		5,000
• Premises		1,000	1,200	1,800	3,000
Cash balance	750	10	5	10	15
	<b>3598</b>	<b>11194</b>	<b>11472</b>	<b>3970</b>	<b>15442</b>
<b>Total Assets</b>	<b>18748</b>	<b>38394</b>			<b>76241</b>
Capital Account / Stated capital	15,000	15,000			15,000
Reserves	1,021	1,112			475

Senadeera Current Account	856	-3,176			-2,902
	16,877	12,936			12,573
Long term Liabilities		13,850			28,750
Current Liabilities					
• Creditors	1,596	3,418			7,008
• Expense Creditors	275	3,195			9,875
• Bank overdraft		4,995			18,035
Total Liabilities	1,871	25,458			63,668
<b>Total Equity and Liabilities</b>	<u>18,748</u>	<u>38,394</u>			<u>76,241</u>

## Appendix 2 -Sample Canteen Tender evaluation structure

### Marking Scheme

Item	Percentage of Marks 100%
Rental Value	20%
Experience	25%
Client Profile	30%
Value for money	25%

### RENTAL (BID)

	Rental Value	Marks
Competitor A	160,000	20
Competitor B	150,000	18.75
Competitor C	100,000	12.5

### EXPERIENCE

	Experience	Marks
Competitor A	Over 5 Years	20
Competitor B	Over 5 Years	25
Competitor C	Over 5 Years	25

### CLIENT PROFILE

	CLIENT PROFILE	Marks
Competitor A		15
Competitor B		25
Competitor C		27

### FOOD PRICES

	CLIENT PROFILE	Marks
Competitor A		14
Competitor B		23.31
Competitor C		19

The items of the Food Items which are mostly consumed taken into consideration for the evaluation of food prices

	Morning Snack Menu	Average Buffet of Lunch	Evening Snack Menu	Marks
Competitor A				14
Competitor B				23.25
Competitor C				19

**FINAL MARKS**

	Rental Value Marks	Experience Marks	Client Profile Marks	Value for money	TOTAL MARKS
Competitor A	20	20	15	14	69
Competitor B	18.75	25	25	23.31	92.06
Competitor C	12.5	25	27	19	83.5

ICS November 2023 Examination- Marking Grid					
Evaluation		Weightage	Competency assessment (Marks)		
			High level of application	The 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 answers 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>			