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No. of Pages = 07

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA**

**TOP CA CASE STUDY EXAMINATION - MAY 2011**

Important - This question paper should be answered entirely in the **ENGLISH**  
Language only.

**THE EXAMINATION QUESTION, INSTRUCTIONS AND  
ADDITIONAL (IMPACT) INFORMATION**

**Time allowed :4 Hours**

**Marks : 100 marks**

**Instructions**

1. This question paper should be answered entirely in ENGLISH language.
2. Your answer must be submitted in the answer booklets provided at the Examination Hall.
3. Any pre-prepared papers included in your answer WILL NOT be marked.
4. After the instruction to stop writing at the end of the paper, you will be given five minutes to assemble your answer.

## CASE STUDY REQUIREMENT

You are Kamal Withanage, a final year trainee at DBD Associate. You are currently working under Mr.NishanUdawatta, the partner in charge of Business Advisory Unit of the firm. DBD Business Solutions (Pvt.) Ltd is an associate company of DBD Associate, headed by Mr.NishanUdawatta.

Greenpass Resource Holdings PLC (GRH PLC), is a new client to DBD Business Solutions (Pvt.) Ltd. It has recently made the transition from a privatecompany to a public limited company and made the successful Initial Public Offering (IPO) which was concluded in the 1<sup>st</sup>week of May 2011.

### **Requirement**

You are required to draft a report for GRH PLC as requested by Mr.HarendraWijesinghe, based on the extracted scope of the Letter of Engagement (Appendix 7) and further explained in the letterfrom Mr.Harendra to Mr.Nishan (Appendix 8). You also need to take into account requirements as mentioned in the email from Mr. Nishan to you (Appendix 9)

State clearly any assumptions that you make. **All workings should be attached to your answer.**

## **Appendix 7 - An extract of the Letter of Engagement**

### **“ Scope of the Engagement;**

As per our understanding of your requirements in this connection, we have identified two separate sub-sections to the engagement.

- To evaluate possible alternatives that are available for proper utilization of funds (Rs.600 Million) raised through recently completed IPO and recommend the best alternative investment.
  
- To provide advice/ an insight of;
  - Valuation of Biological Assets as per IAS 41 and impact analysis of LKAS 41 which will be effective from 1 January 2012.
  - Recruitment of few professionals to the senior management of the GRH Group.
  - Inculcating of Corporate Sustainability and Greenness Concepts in to the GRH Group

Accordingly we will perform procedures described in this letter and submit a report based on the results of our work” .

## Appendix 8-Letter from Mr.HarendraWijesinghe to Mr.NishanUdawatta

19 May 2011

NishanUdawatta,  
Partner  
DBD Associate  
57, De Saram Place  
Colombo 10.

Subject: **Implementation of new Strategies**

Dear Nishan

Further to the discussion we had in this regard, I would like to bring it to your notice the following that I think would be needful for you.

### 1. Investment in Leisure Sector.

As you are aware we were able to generate funds of Rs.1.5 billion from the recently completed IPO. We are now considering the utilization of funds for the projects as mentioned in the prospectus. We have already started initial work on both the Mini-Hydro Power Projects and the Property Development Project since we have received the required regulatory approvals in time. I believe that we will be able to successfully implement these projects as expected.

But the problem is with Hotel Projects. Still we are in the process of negotiation with the regulatory authorities to obtain the required approvals to start up the projects.

Current status of such approvals is given in the table below;

	<b>Approving Authority</b>	<b>Status</b>	<b>Remarks</b>
1	Board of Investment	Pending	Negotiation stage and possibility of getting the approval is high
2	National Building Research Organization	Obtained	-
3	Central Environment Authority	Pending	Negotiation stage and possibility of getting the approval is low

4	Provincial Council	Pending	Negotiation stage and possibility of getting the approval is high
5	Sri Lanka Tourist Board	Obtained	-
6	Urban Development Authority	Obtained	-
7	Ministry of Plantation Industries	Pending	Negotiation stage and possibility of getting the approval is remote

With this situation where the required approvals are indoubt, our management is considering alternative investment strategies /options for the purpose of utilizing the allocated funds for these two hotel projects. *As I have already discussed with you about the GRH Group's long term strategies,* I think you will be able to suggest few options in general so that we will look into those further.

We have already approached to invest in Hotel Conreach (financial information of Conreach Group has already submitted to you). After a few successful discussions with Mr. Jehan and the executives of Conreach Hotel Holdings PLC, we have signed a letter of Intent which by itself shall not constitute or give rise to an obligation by Greenpass Resource Holdings PLC to make Equity or Debt Investment or otherwise to make any investment. The Letter of Intent shall not be binding on the parties thereto. The directors of GRH PLC are seriously considering for an investment in Conreach Hotel Holding PLC subject to your advice on the commercial viability of the investment. However, we have not yet decided as to what form (or structure) the investment would take. But we prefer to have the controlling power. In this context, I need your advice especially on the following areas;

- Is it commercially viable for GRH to invest in Conreach?
- If that is the case, what would be the available investment options to obtain the controlling power?
- If we are to acquire the Conreach, what would be the minimum fund required for the acquisition? (Though we have decided to get a separate valuation done in future, your advice will also be helpful.)

- If the investment in Conreach get delayed what are the possible alternatives to ensure the proper utilization of available funds.
- Please note that we need at least a return of 18% per annum from any investment.

## **2. Valuation of timber stock and impact to the financial statements of the Group/Subsidiaries due to the adaptation of new accounting standard-LKAS 41**

One of our Group's strategies is to further expansion into commercially viable forestry development on the estates. In a recent board meeting, we decided to recruit few experts to look into this aspect also. The Board also discussed the issue related to valuation of timber stock of Udarata Plantation PLC. As per Kapila, we can challenge the determination by the Sri Lanka Accounting and Auditing Standards Monitoring Board. But he is not in a position to give us a proper basis of conclusion. As I have already requested, can you please provide me an insight on the requirements by relevant Standard in this regard. I think this will be useful for us to discuss with our lawyers prior to take any action against the comment made by the Sri Lanka Accounting and Auditing Standards Monitoring Board. I recently attended the seminar on new LKAS 41 organized by the ICASL and realized that there are many new requirements for plantation companies with the adaptation of new accounting standards. I need an insight in this regard too.

Please speak to Kapila -Manager Accounts, should you require further information especially regarding financials of the Group.

Thanks and Best Regards!!!!!!

Harendra.

## Appendix 9 -email from Mr.NishanUdawattato You

From: [nishan.udawatta@dbd.lk](mailto:nishan.udawatta@dbd.lk)  
To: [kamal.withanage@dbd.lk](mailto:kamal.withanage@dbd.lk)  
Date: 25 May 2011  
Subject: **Advisory Assignment -GRH PLC**

**Dear Kamal**

As I have initially requested, I hope that you have performed some financial and value analysis on the provided financial information of the Conreach Hotel Holdings PLC. These analyses will be useful to report on Mr. Harendra's requirement. Please note the following when you draft the report.

- Consider both quantitative and qualitative factors in deciding the commercial viability of the investment.
- Based on our report, if the board of directors of GRH decided to go ahead with the investment, we will have to perform a comprehensive business valuation by considering all possible value analysis options. For the time being, it is enough to use one or two simple business valuation techniques with the limited available information about Conreach Hotel Holdings PLC. Remember that we need to suggest a range of value parameters.
- Please remember that Mr. Harendra and other members of the board are not accountants. This is important with regard to the advice in respect of timber valuation and other matters applicable to LKAS 41. Also consider new changes that were not there in SLAS 32.
- With regard to the recruitment of professionals to the senior management, you can consider corporate governance requirements and other industry related matters.
- **Regarding Sustainability concept**; I think you will be able to use your recent experience gained from the engagement on sustainability report of DHCF Bank.

Regards!

Nishan.

