Paper P3

The Accountancy & Audit Profession (Org.) Council

The Sudanese certified Accountants

June 2025 Session

Professional Level - Essential

**Governance, Risk and Ethics**

Date: 3 July 2025

Time Allowed:- 15 Min. For planning And Reading . 3 Hours for Writing.

Section A – This ONE question is compulsory and MUST be attempted

Section B – TWO questions ONLY to be attempted

AAPOC

Do not open this Questions paper unless instructed by the invigilator.

Do not take this questions paper out of the exam hall.

**The Accountancy & Audit Profession (Org.) Council**

**The Sudanese Certified Accountants**

Paper P3 : Business Analysis

QUESTION ONE

Arboria is a prosperous industrial country with an established consumer culture that is distinguished by demanding and assertive consumers. Many companies find it difficult to compete successfully in the country but MachineShop is a notable exception. MachineShop sells small electrical machines and tools to both trade (people who use the machines/tools in their work) and domestic customers (people who use the machines/tools at home). For example, it sells a range of paint strippers retailing from $100 to $3,500. These paint strippers are bought by both tradesmen (for example, decorators) and ordinary domestic customers who use them to maintain their own home. It is estimated that 65% of sales are to domestic customers. MachineShop currently has 50 brightly decorated stores throughout Arboria. On average, a further two stores are opened every month. The company has no direct competitors. Most firms offering similar machines only sell them to tradesmen. In many respects MachineShop has defined a new market and it is the only company which, at present, seems to understand the dynamics of this market.

MachineShop is a private company still wholly owned by its directors. The board is headed by Dave Deen, a dynamic entrepreneur who enjoys a high national media profile. He likes the excitement of business and is determined to rapidly grow MachineShop – an ambition shared by his fellow directors. In 20X4, on a turnover of $50m, MachineShop recorded a gross profit margin of 28% and an operating margin of 17%. It delivered a Return on Capital Employed (ROCE) of 17.5%. It currently has a gearing ratio (defined as long-term loans/capital employed) of 15% and an interest cover ratio of 3.5.

Dave Deen has an ambitious growth plan, which he intends to achieve through a combination of internal growth, acquisition and, possibly, strategic alliances. The opening of further stores in Arboria is providing internal (organic) growth. Much of this drive for growth is fuelled by a desire to exploit MachineShop's unique competencies before the idea is copied, both within Arboria and elsewhere in the world. However, the company is having difficultly finding companies to acquire, as there are few equivalent companies to target, either in

Arboria or elsewhere in the world. Although MachineShop has never traded outside Arboria, the search for acquisitions is worldwide, with Dave Deen particularly keen to explore international markets in his desire to build a worldwide brand. He has specifically identified the developing country of Ceeland as a potential target, because macroeconomic trends suggest that a consumer society is emerging there, which is similar to the one in Arboria.

Ceeland The government of Ceeland has spent the last decade building an effective road transport system, supported by low fuel and road taxes which make it cheap to use. The government has also installed a fast digital communication network, providing broadband internet access to all of the population. This is important to MachineShop because internet order placement (either for collection or delivery) is an important part of their business model. The government has also lifted certain restrictions which had been in place under its predecessor. For example, it has removed the need for companies trading in the country to be registered in Ceeland and to have at least one Ceelander citizen on the board. Until recently, there were restrictions on what machines could be used by domestic customers. However, these restrictions have also been removed, as part of a government initiative to encourage the development of light manufacturing in the country. Indeed, one brand of products already stocked by MachineShop is made by a company based in Ceeland. Fabrique Regle de Garrido (FRG)

Dave Deen has identified Fabrique Regle de Garrido (FRG) as a potential acquisition or strategic partner. FRG currently has 30 depots in Ceeland supplying large machine tools solely to trade customers. It does not sell products to domestic customers. It has an effective distribution network and a sales team which is experienced in selling to Ceeland businesses. MachineShop has the finance (in the form of bank loans and retained earnings) in place for an acquisition or a strategic partnership. Dave Deen has not yet opened up negotiations with FRG, but he has extracted some financial information from the company's most recently filed accounts (see Figure 1). He has also discovered that FRG is a privately owned company, with 30 shareholders, including a local trade union. Dave Deen sees the potential acquisition of FRG as an opportunity to introduce the MachineShop business model into Ceeland. He fully expects the country to become increasingly similar to Arboria and so it will be suitable for the sort of service and products which

MachineShop offers. 'Achieving quick, substantial growth through acquisition will give us a powerful bargaining position. It will allow us to develop economies of scale, including purchasing in bulk to further drive down product prices. This will help us erect barriers to potential competition', he said.

Figure 1: Extracted financial information for FRG

| | 20X4 |
|---|---|
| | $'000 |
| Revenue | 9,000 |
| Cost of sales | (7,500) |
| Gross profit | 1,500 |
| Other expenses | (700) |
| Finance costs | (300) |
| Profit before tax | 500 |
| Income tax expense | (100) |
| Profit for the year | 400 |
| Non-current liabilities | |
| Share capital | 9,500 |
| Retained profit | 400 |
| Long-term loans | 2,500 |

MachineShop acquisitions

MachineShop does have some experience in acquisitions. In 20X2 it acquired two companies based in Arboria which still trade as independent companies. The purchase of LogTrans was prompted by the need for MachineShop to have a dedicated and reliable logistics supplier. The post-acquisition performance of the company was spoilt by a dispute between Dave Deen and the senior management of LogTrans. This was due to a personality clash, caused by a different way of doing business. Eventually, the senior management of LogTrans was removed and replaced by people more aligned with the corporate culture of MachineShop. EngSup was also acquired in 20X2 to provide an enhanced service facility to people who had purchased machines from MachineShop. Customer feedback showed that many customers were unimpressed by MachineShop's after sales service. EngSup already provided support for many domestic electrical products and so MachineShop bought the company with the intention of using it to provide support for MachineShop's customers. However, initial feedback was negative because EngSup's service engineers provided a poor level of service, coupled with an arrogant approach to the customer. A retraining scheme, together with selected redundancies, has now addressed these problems. Extracts from the current year's figures for both companies, compared with the last full pre-acquisition period of the company, are shown in Figure 2.

Figure 2: Extracted financial information for LogTrans and EngSup

| | LogTrans | | EngSup | |
|---|---|---|---|---|
| Extracted data | 20X4 | 20X1 | 20X4 | 20X1 |
| | $'000 | $'000 | $'000 | $'000 |
| Revenue | 700 | 650 | 350 | 325 |
| Cost of sales | (575) | (510) | (275) | (250) |
| Gross profit | 125 | 140 | 75 | 75 |
| Other expenses | (60) | (70) | (35) | (30) |
| Finance costs | (30) | (15) | (10) | (8) |
| Profit before tax | 35 | 55 | 30 | 37 |
| Income tax expense | (15) | (10) | (7) | (10) |
| Profit for the year | 20 | 45 | 23 | 27 |
| Non-current liabilities | | | | |
| Share capital | 500 | 400 | 250 | 100 |
| Retained profit | 80 | 70 | 40 | 170 |
| Long-term loans | 100 | 50 | 30 | 20 |

Required:

(a) Internal growth, acquisition and strategic alliances are three methods of pursuing growth. Explain and evaluate each of these three methods of pursuing growth in the context of MachineShop's development to date and its ambitions for future growth and development.
(18 marks)

(b) MachineShop is considering the acquisition of FRG. They have asked you, as a business analyst, to write a report which advises them on this potential acquisition.
Write a report, using the criteria of suitability, acceptability and feasibility, which evaluates the potential acquisition of FRG, concluding with whether you would recommend MachineShop to acquire FRG. (18 marks)
Professional marks will be awarded in part (b) for the structure of the report, the clarity of the analysis and the soundness of the conclusion or recommendation.

(4 marks)

(c) Dave Deen has heard about Porter's 'diamond' and wants an explanation of the principles, relevance and application of this model. Explain the principles of Porter's 'diamond' and use it to assess the relative attractiveness of Ceeland and Arboria in providing an environment in which MachineShop's growth ambitions could be achieved.

(10 marks)

(Total = 50 marks)

## Second Section– Two questions only to be attempted

### Question Two

Chemical Transport (CT) is a specialist haulage company providing transport services for several chemical wholesalers. Despite these wholesalers being in competition with each other, many of them have outsourced their distribution to CT, recognising the company's expertise in this area and its compliance with stringent and emerging legislation. This legislation is at both national and international level and concerns the transportation and handling of chemicals, as well as the maintenance of trucks and trailers and the health, competencies, safety and driving hours of drivers. There are also chemical wholesalers in the country who either organise their own distribution or outsource to one of CT's competitors.

CT handles the distribution of chemicals from either the port of importation or point of production to the wholesaler's depots or directly to the end customers of the wholesaler. The chemical wholesalers are increasingly attempting to minimise their own storage costs, so many of CT's deliveries are now directly from the point of production (or port of importation) to the end customer. Most of these end customers are manufacturing companies with limited chemical storage capacity.

The complex and changing nature of legislation has led to CT engaging a specialist legal consultancy to provide it with advice. They have found this advice to be both useful and proactive. The consultancy has identified the potential effect of employment, tax and health and safety legislation in advance and has notified CT of its likely implications. CT has benefited from this advice but it is concerned that it is expensive and it is considering employing a full-time legal expert, instead of using the legal consultancy.

The chemical wholesalers have asked CT to provide an internet-based system which would allow them to request and track deliveries. CT does currently have a website, but it only contains information about the company: its structures, history, key contacts and case studies. CT has agreed to provide such a system because it is aware that failure to do so will lead to wholesalers looking for an alternative distributor. CT does have an internal IT capability with some expertise in building web-based systems.

The internal IT team have also developed a bespoke payroll system. Drivers at CT are rewarded with basic pay, together with a complex set of bonuses and deductions which have been developed and enhanced over the last few years. There are bonuses for certain skills and attainments and deductions for missed or delayed deliveries or mistakes. The drivers themselves find the pay arrangements very confusing. One commented that 'we find it almost impossible to check if we have been paid correctly and it confuses us rather than motivates us!' Changes in national tax legislation are also continually affecting the payroll calculation. Indeed, recent changes in legislation led to the IT team being fully occupied for three months, developing and testing the required modifications to the payroll system.

Required

(a) Three significant business process areas have been identified in the scenario: (1) payroll, (2) legal advice and (3) an enhanced web service allowing wholesalers to request and track deliveries.

Use Harmon's process-strategy matrix to analyse the characteristics of each of the three process areas defined above and suggest how each should be sourced and implemented at CT.

(15 marks)

(b) Requesting and tracking information could be the first part of a comprehensive customer relationship management (CRM) system.

Evaluate how CT could use a CRM system to acquire and retain customers.

(10 marks)

(Total = 25 marks)

Question Three

1. ROSE is a large chain of fixed price discount stores based in the country of Eyanke. It stores different goods that require no cold storage such as cleaning products, plastic storage units, biscuits.

The company buys from a number of small suppliers. Profits margin on the products they sell are low and overheads are kept to a minimum. The target price is fixed. The products tend to be undifferentiated.

ROSE has observed the long-term economic decline in the neighboring country of Eurobia where the prolonged economic recession has led to the growth of the so-called dollar shops. Three significant dollar shops chains have developed. Z, Y and W stores (see Table one).

The shops of these three chains are particularly found on high streets of towns and cities where there is significant financial hardship. Many of these towns and cities have empty stores which are relatively cheap to rent. The fixed price dollar shops advertise extensively and announce plans for opening of new shops throughout the country.

ROSE has recognized the growth of fixed price discount retailers in country of Eurobia and is considering entering this market. ROSE recently commissioned a survey in country of Eurobia. Amongest the general consumer only 5% of the respondents had heard of ROSE. In contrast the three current fixed price shops in Eurobia were recognized by more than 95% of the respondents.

ROSE itself has revenue of $120 million. It has cash reserves which could allow it to lease a significant number of shops in Eurobia. It has an effective procurement system and effective supplier's selection its logistics system and methods are core strengths of the company.

There are also many conventional supermarket chains operating in Eurobia. The largest of these has annual revenue of $42,500 million. Supermarkets in Eurobia tend to favorer out of town sites which allow the stores to stock a wide range and quantity of products. However prices of such goods vary and no supermarket have yet adopted the discount fixed price approach. These supermarkets stores compete with each other and pay little attention to the fixed price dollar shops. Many supermarkets also have internet-based home ordering system offering a fee of $10 deliveries for customers who desire this service.

Table one shows the relative revenue of the main discount fixed price chains in Eurobia.

| | 2022($ millions) | 2021($ millions) | 2020($ millions) |
|---|---|---|---|
| Z | 330 | 300 | 275 |
| Y | 310 | 290 | 250 |
| W | 290 | 235 | 200 |
| | 930 | 825 | 725 |

Required:

A- Use porter's five forces framework to assess the attractiveness of ROSE of entering the discount fixed price retail market in Eurobia. (15 marks)

B- Discuss the potential of using scenarios by ROSE's managers as part of their analysis of ROSE's possible entry into the discount fixed-price retail market in Eurobia.

(10 marks)

(25 marks)

## Question Four

Noor has a reputation for quality, traditional products. It has a group of optician shops, both rented and owned, from which it sells its spectacles. Recently, it has suffered intense competition and eroding customer loyalty, but a new chief executive has joined from one of its major rivals Mahaglass. Mahaglass is capturing Noor' market through partnership with a high-street shopping group. These shops install mini-labs in which prescriptions for spectacles are dispensed within an hour. Some competitors have successfully experimented with designer frames and sunglasses. Others have reduced costs through new computer-aided production methods. Noor has continued to operate as it always has, letting the product 'speak for itself' and failing to utilize advances in technology. Although production costs remain high, Noor is financially secure and has large cash reserves. Fortunately, the country's most popular sports star recently received a prestigious international award wearing a pair of Noor' spectacles. The new Chief Executive has established as a priority the need for improved financial performance. Following a review she discovers that: (i) Targets are set centrally and shops report monthly. Site profitability varies enormously, and fixed costs are high in shopping malls; (ii) Shops exercise no control over job roles, working conditions, and pay rates; (iii) Individual staff pay is increased annually according to a pre-determined pay scale. Everyone also receives a small one-off payment based on group financial performance. Market analysts predict a slowdown in the national economy but feel that consumer spending will continue to increase, particularly among 18-30 year olds.

Required:

(a) Produce a SWOT analysis of Noor, taking consideration of internal and external factors.
(12 marks)

(b) Recommend, with reasons, strategies from your appraisal that would enable Noor to build on its past success.

(13 marks)

(25 marks)