



Financial Tuition

**MOCK EXAM 5 FOR DAISTRUK
CIMA MAY-AUG 23 SCS CASE STUDY**

Strategic Case Study Exam – Mock 5

Maximum time allowed: 3 hours

This exam is structured as follows:

Section Number	Number of Tasks	Time for section (minutes)	Number of sub tasks	% time to spend on each sub task
1	1	60	2	(a) 60% (b) 40%
2	1	60	2	(a) 60% (b) 40%
3	1	60	2	(a) 50% (b) 50%

Each section (task) has a number of sub tasks. An indication of how much of the time available for the section that you should allocate to planning and writing your answer is shown against each sub task in the text of the question (and summarised in the table above).

This information will be available for you to access during the examination by clicking on the Pre-seen button.

Section 1 (60 mins)

It is 21 January 2023. Daistruk's board recently met to discuss a partnership with a leading banana producer based in Southland.

You receive the following email from Rasim Hamid, Chief Finance Officer:

From: Rasim Hamid, Chief Finance Officer

To: Senior Manager

Subject: Commercial logic and currency risk

I recently had a meeting with the board. I've attached an extract of the minutes that relate to that meeting.

After the meeting, I had a look at interest rates offered by Roundland banks. It turns out that the rates offered by Roundland banks are much lower than equivalent rates in most countries, including Southland. These rates apply to variable rate and fixed rate loans of up to three years.

I have a board meeting soon where we will be discussing the potential partnership in greater detail. Could you assist me beforehand by advising me on the following issues:

- Evaluate with reasons the commercial logic of Daistruk managing the entirety of Southnana's supply chain. **(sub-task (a) = 60%)**
- Evaluate the possibility that lower interest rates on R\$ loans helps us to understand whether the R\$ is likely to remain strong and also evaluate the implications for this partnership of an increase in Southland's interest rates. **(sub-task (b) = 40%)**

Rasim Hamid
Chief Finance Officer

Reference materials

Board minutes extract: Southnana partnership

Henrik Gerding, Chief Executive Officer (CEO), opened the meeting by stating that he was recently approached by a company called Southnana. The company is based in Southland, a country that uses the S\$.

Southnana produces bananas for export. The company owns Southland's largest banana farm and has its production facility beside it. Once the bananas are ready to be picked, trees are taken from the farm and placed in the facility. In the facility, bunches are picked and wrapped in plastic. The bunches are then placed in crates. The crates are then stacked on top of each other inside a shipping container.

Southnana exports all of its bananas to Roundland as customers in Roundland pay a relatively high price, given that bananas cannot grow there. The company currently uses a variety of logistics companies to transport the bananas from the production facility to Southland's seaport and then to Southnana's wholesale customers in Roundland.

According to Henrik, Southnana is eager to partner with a Roundland logistics company to manage its entire supply chain. This would involve Daistruk taking responsibility for all of Southnana's warehousing and transport both inside Southland and in Roundland. Daistruk would also be responsible for the company's logistics strategy.

Currently, Daistruk operates as a "3PL". The partnership with Southnana would make the company a "4PL" for the first time. Henrik noted that he is unsure if this is the correct strategic direction for the company. Henrik noted that some elements of Southnana's logistics would need to be subcontracted to local Southland providers, which is not something that Daistruk has done before.

Henrik mentioned that Southnana only ever transacts with customers and suppliers using the Southland dollar (S\$). Henrik closed the meeting by stating that Southland is considered to be an emerging market and thus has a relatively volatile currency compared to the strong R\$.

Write a response to Rasim's email below:

From: Senior Manager

To: Rasim Hamid, Chief Finance Officer

Subject: RE: Commercial logic and currency risk

Section 2 (60 mins)

A few months have passed. Daistruk is now managing Southnana's entire supply chain.

You receive the following email from Rasim Hamid, Chief Finance Officer:

From: Rasim Hamid, Chief Finance Officer

To: Senior Manager

Subject: Overseas financing and political risk

Have a look at the email that Henrik Gerding, Chief Executive Officer, sent me recently.

I've carried out some analysis into the risks involved in acquiring the inland port, but I haven't had the time to consider the potential political risks that Daistruk might be exposed to as a result of the acquisition.

I have a meeting with the board later on. Could you advise me on the following before I attend the board meeting:

- Firstly, evaluate the advantages and disadvantages of obtaining an S\$ loan from a Southlandian bank to finance the purchase of the inland port. **(sub-task (a) = 60%)**
- Secondly, identify and evaluate the political risks to Daistruk of acquiring the inland port. **(sub-task (b) = 40%)**

Rasim Hamid
Chief Finance Officer

Reference materials

From: Henrik Gerding, Chief Executive Officer

To: Rasim Hamid, Chief Finance Officer

Subject: Acquiring an inland port

Hi Rasim

As you know, we are now managing Southnana's entire supply chain. So far, we have outsourced transportation within Southland to a local 3PL logistics company in Southland. However, we are carrying out the transportation of the containers once they arrive in Roundland. We are also managing Southnana's warehouse, which is located beside its production facility.

Transportation around Southland is slow as some of the roads are poorly maintained. To overcome this, I am recommending that we create an inland port that is rail-connected to Southland's only seaport. In Southland, rail is planned and owned by the government. As a result, a company must obtain a licence in order to construct an inland port and connect it to the rail network.

One solution I have to work around this requirement is to purchase an existing inland port that is connected to the seaport. Logitrade, Southland's largest logistics company, owns an inland port 60 kilometres from Southnana's production facility. I've reached out to the CEO of Logitrade, and their board is happy to sell us the inland port for S\$100 million, which is the equivalent of R\$30 million using today's spot rate.

I believe that we should approach a Southland-based bank and obtain a loan denominated in S\$ to fund this acquisition. I'd like you, before our next meeting, to think about the potential impact of doing this, as well as any other risks that you think will be relevant.

Henrik Gerding
Chief Executive Officer

Write a response to Rasim's email below:

From: Senior Manager

To: Rasim Hamid, Chief Finance Officer

Subject: RE: Overseas financing and political risk

Section 3 (60 mins)

A few months pass. Daistruk has purchased the inland port in Southland.

You have the following conversation with Rasim Hamid, Chief Finance Officer:

“Have a look at this article that was posted this morning.

Based on our own reports, it does appear that the truck that crashed was breaking the speed limit. The article is also true in stating that this is the third time in six months that one of our subcontracted deliveries has been involved in a speeding-related collision.

As a result of the comments made by the shareholder in the article, the board and I want to ensure that we put internal controls in place to prevent the reoccurrence of this event in the future. I’m meeting with the board later to discuss this in detail.

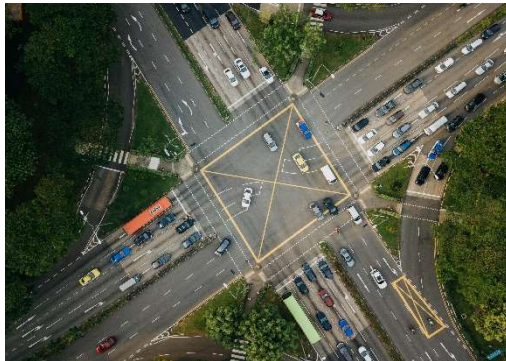
Could you advise me on the following issues before the meeting:

- Firstly, recommend and explain two internal controls that would enable the board to demonstrate that it has taken reasonable steps to ensure that subcontractors do not commit driving offences like the ones mentioned in the article. **(sub-task (a) = 50%)**
- Secondly, discuss the legitimacy and possible consequences of major shareholders criticising strategic decisions that are made by Daistruk’s board. **(sub-task (b) = 50%)**

Reference materials

Southland Gazette

Delivery trucks cause motorway chaos



This morning, a speeding delivery truck crashed into a pillar on the N1 motorway, causing the truck's load to fall off. The truck's contents were spread over the motorway, effectively closing two lanes until emergency services were able to clear them.

The truck belonged to Logitrade and was transporting bananas to an inland port owned by Daistruk, a Roundland-based logistics company. It is believed that Daistruk contracted Logitrade for this delivery.

This is the third time in six months that a truck contracted by Daistruk has been involved in a speeding-related road accident. While nobody has been injured, the accidents have each caused significant disruption to the lives of Southlandian citizens.

Roundland Life, one of Daistruk's largest institutional shareholders, has criticised the company for failing to control this issue. The shareholder openly stated that the partnership between Daistruk and Southnana exposes Daistruk to excessive levels of risk and that Daistruk would have been better off servicing Southnana as a 3PL instead of managing the company's entire supply chain.

Write a response to Rasim's conversation below:

From: Senior Manager

To: Rasim Hamid, Chief Finance Officer

Subject: Internal controls and shareholder criticism