



# CIMA

**CIMAPRO19-CS3-1-ENG**

**Strategic Case Study Exam**

**QUESTION & ANSWERS**

## Question: 1

Daily Gazette

Draft story for comment

The singer, the forester and the tax adviser

Popular singer Barry Crauder is regarded as one of our more financially-aware personalities. He works hard, releasing at least one new album every year and serving as a judge on a popular talent show. He has a reputation for investing this income wisely, choosing to save for his future rather than squandering on the trappings of the show business lifestyle.

Crauder's popularity was severely damaged when it emerged that he pays little or no tax on the investment income derived from his portfolio of investments. That is because he has used one of the few remaining tax loopholes, namely investment in forestry. He owns significant areas of forestry in the far North of Marland.

We estimate his earnings from those investments to exceed M\$800,000 every year and yet he has not paid a single Cent in tax on that income since he first invested in forestry ten years ago. In contrast, a typical fan who earns the national average wage of M\$28,000 every year will pay approximately M\$7,000 in tax.

So, could we all invest in forestry? Well, not unless we can afford it. I posed as a wealthy business entrepreneur and approached several leading tax advisers. Most were interested in helping me to invest a seven figure sum to avoid tax, but warned that saving tax could be expensive in terms of fees and commissions.

Four firms recommended forestry as the ideal investment. All recommended Wodd, with whom all four claimed to conduct "significant business". They said that a typical client would give Wodd a bank draft and leave the purchase and subsequent management to Wodd in return for a fee. Most clients had never even seen the forests that they own and none ever need to make a management decision concerning the growth or sale of timber.

Sadly, investing in forestry is a rich person's pursuit. I was warned that companies such as Wodd are unlikely to entertain a potential client whose initial investment does not run into the tens of millions of M\$.

Please address any response to Sonia Jones, care of the Daily Gazette news desk, as quickly as possible.

**Answer: Complete your answer and submit.**

## Question: 2

Newsweb

Protesters block bulldozers

Attempts by Wodd to harvest some of the hardwood trees from their newly acquired Bravadorian forest suffered a further setback yesterday.

Wodd's bulldozers have been unable to make any headway in clearing the site for the company's first logging base because environmental groups from several countries have descended on the Bravadorian jungle to protest the proposed destruction of the forest and the associated harvesting of many rare hardwood trees. Protestors have chained themselves to trees and to heavy equipment, making it impossible to commence the clearance operations.

Wodd's problems have been compounded by the recent discovery that a tribe of forest dwellers has lived in the forest for many generations, making little or no contact with the outside world in the process. The tribe is effectively nomadic, moving from one part of the forest to another, surviving by hunting game and gathering edible vegetation and relocating when food starts to become scarce. The environmental protestors claim that Wodd's activities will make it impossible for this tribe to continue with its traditional way of life.

Wodd claims to adhere to The Forestry Stewardship Council of Marland's ten principles, which include the assurance that "The legal and customary rights of indigenous peoples to own, use and manage their lands, territories, and resources shall be recognized and respected."

Reference Material:



**Answer: Complete your answer and submit.**

### Question: 3

Peter Sorchi, Wodd's Chief Executive has stopped you in the corridor:

"We signed a memorandum of understanding with the Bravadorian Government last night. Effectively, we are now the new owners of a forest in a new continent for us. It has already made it onto the business pages in the press.

Once the formalities are completed, we will be entering into new commercial territory. Our surveyors have looked at the first area that we intend to develop and there is a lot more hardwood than we first expected. That is good news in a way because it can be sold at a premium, but we don't have any experience of selling hardwood and we are hardly going to pulp it for MDF or paper. I need you to identify the changes that we will have to make and to recommend how best to manage them.

The funding arrangements are still being worked out. Bravador's banks are not in a position to fund a transaction of this size and none of the other banks that we have approached are prepared to lend to us. We will need to raise additional equity. I realise that we would normally make a rights issue, but I think that it would be simpler and cheaper to suspend the dividend for a year, which would cover most of the purchase price in itself. Please advise me on the advantages and disadvantages of doing that.

It would be ideal if you could let me have a briefing paper on both of these matters urgently."

Reference Material:

## Business Weekly

### Wodd's jungle adventure

Wodd announced the purchase of a major forest in South America. This will further consolidate the company's position in the market for wood pulp. It will also create some interesting new opportunities because the forest contains significant untapped hardwood resources.

It will be interesting to see how Wodd responds to the challenges associated with this investment. There are significant profits to be made, but there are also significant pitfalls to be avoided.

**Answer: Complete your answer and submit.**

## Question: 4

The formal merger with Darrell has been negotiated and the legal formalities have been completed. The two company management teams are working on the integration of the two businesses.

You receive an email from Peter Sorchi, the Chief Executive of the merged company:

From: Peter Sorchi, Chief Executive Officer

To: Senior Finance Manager

Subject: Integration of IT and treasury

Hi,

I need you to advise me on a couple of matters. The attached press clipping shows how sensitive this is. We need to integrate the IT and treasury functions of the former Wodd and Darrell. I thought that it would be a simple matter of identifying the common ground and slimming down both companies' departments to cover the new entity, but I have the heads of both IT and treasury from each company arguing that their approaches are better for the merged group and that they should take the lead.

Wodd's Treasurer claims to be an expert in natural hedging of currency risks and Darrell's argues that her department was highly successful because it makes excellent use of derivatives for hedging. Both agree only on the fact that they cannot work together. I am afraid that I have to agree with them on that and the Board will have the difficult decision of choosing between them.

I have the opposite problem with the IT function. The two Heads of IT are excited to be able to combine their databases and to develop their respective interests in Big Data. They claim that we should retain all of the professional staff in both departments and possibly even expand the merged IT Department beyond that. Given the rationalisation in all of our other functions, I do not think that we can agree to that, but I would hate to throw away a worthwhile opportunity.

Please give me your thoughts on the following:

What approach to hedging is more likely to meet our needs: natural hedging or heavy use of derivatives?

Ignoring hedging, what other factors should we consider in deciding between the two treasurers?

Are the two heads of IT likely to be correct in arguing that we need to retain all existing IT staff in order to exploit synergies in data, particularly opportunities to leverage Big Data?

What would the challenges be in motivating them to reduce their joint staffing levels and how might we deal with these?

Peter

**Answer: Complete your answer and submit.**

## Question: 5

Daily Gazette

Celebrities flock to release tax returns

Comedian Madd Wilkins is the latest celebrity to post his tax returns online. The comedian earned M\$1,600,000 from his sell-out tour and from the sale of DVDs. He paid tax of M\$608,000 on that income.

The comedian quipped, "there's nothing funny about paying tax, but then there's nothing very funny about my act either so it's only fair that I should pay the full whack".

Public concern about the tax benefits enjoyed by wealthy celebrities using artificial schemes such as investing in forestry to minimise their tax bills has led to closing tax loopholes topping the political agenda. Many wealthy individuals have volunteered their tax files in order to reassure the public that they are not benefitting from such schemes.