



Mini Mock Exam - Questions

Management Case Study – November 2023 / February 2024

The mini mock examination is structured as follows:

Section number	Time for section (minutes)	Number of tasks	Number of sub task/s	% time to spend on each sub task
1	45	1	2	(a) 56% (b) 44%
2	45	1	2	(a) 56% (b) 44%

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 (45 mins)

You have received the following email from Pavarit Chotisin, the Senior Financial Manager as you start your day at office.

To: Financial Manager

From: Pavarit Chotisin, Senior Financial Manager

Subject: New dealership proposal

Hi,

The board has received an interesting dealership proposal from KMW, a popular hybrid car manufacturer from Mayland. KMW's hybrid vehicles have garnered significant international acclaim and demand, and they are now eager to extend their presence into the Welland market. Cuppcar has received an exclusive dealership proposal from KMW. Please refer to the board meeting minutes I have attached for more details.

I need you to draft a briefing paper for the board that covers the following:

- Firstly, evaluate the challenges Cuppcar will face in complying with the three main dealership conditions of KMW and how we can overcome those challenges.

[sub-task (a) = 56%]

- Secondly, discuss the characteristics of debt and equity that should be considered when sourcing the funds for the investment required to establish the new dealerships for KMW.

[sub-task (b) = 44%]

Regards,

Pavarit

-----REFERENCE MATERIAL IS AVAILABLE ON THE NEXT PAGE-----

Reference Material

Extract from Board minutes

The popular hybrid car manufacturer, KMW, is keen to enter the Welland market. They have first approached Cuppcar for an exclusive dealership proposal. If this deal proceeds, we will be KMW's one and only dealership in Welland for the next 3 years. However, in order to award the exclusive dealership to Cuppcar, KMW has stipulated three main conditions. We need to determine whether we are capable of complying with their conditions.

Three main conditions of the dealership proposal are:

1. Joint marketing: Cuppcar should actively participate in joint marketing initiatives with KMW to promote the brand's vehicles and services in the Welland market.
2. Joint decision-making: Cuppcar should establish regular communication channels and joint decision-making processes to ensure the smooth operation of the new dealerships.
3. Sustainable operations: Cuppcar is required to implement sustainable and environmentally responsible practices at the new dealerships, including waste reduction, energy efficiency, and eco-friendly business operations.

Moreover, KMW requires us to open 8 new dealerships for them in 8 major cities in Welland. This would require a significant capital investment from Cuppcar and we need to determine how best we can source the required finance. Pavarit Chotisin, the Senior Financial Manager has informed the board that the initial investment required to set up the dealerships has been projected to be W\$ 160M.



Section 2 (45 mins)

A week has passed. You have returned to work after a two days leave. You have received an email from Pavarit Chotisin, the Senior Financial Manager.

To: Financial Manager

From: Pavarit Chotisin, Senior Financial Manager.

Subject: KMW proposal

Hi,

Thank you for your recent work on the KMW proposal. While you were on leave, I sought the assistance of the newly recruited finance officer to perform the investment appraisal for the KMW proposal, and it was put forward for consideration at the board meeting yesterday. The board is however seeking further information on the matter and I would appreciate some input from you in this regard. I have attached the board meeting minutes for your reference.

On an unrelated matter, I would appreciate if you could provide some assistance to the newly recruited finance officer regarding the accounting treatment for a new fleet leasing agreement we are entering into with United Holdings. The terms of the lease agreement are included in the second attachment to this email for your reference.

In view of the above, I would appreciate if you could prepare the following:

- Firstly, taking into account the investment appraisal performed by the finance officer, provide your suggestions on how we can present a more informative investment appraisal to the board to determine the financial viability of the investment. Please also address the question raised by the HR director.

[sub-task (a) = 56%]

- Secondly, explain how the proposed lease should be treated in our financial statements.

[sub-task (b) = 44%]

*Regards,
Pavarit*

-----REFERENCE MATERIAL IS AVAILABLE ON THE NEXT PAGE-----

Reference Material

Attachment 1: Extract from Board minutes

The initial investment required to set up 6 new dealerships has been projected to be W\$ 160M. The investment is expected to yield a positive NPV of W\$ 21.8 million with a payback period of 4.5 years.

The estimated cash flows used in the calculations were based on “moderate” level of demand. The two other demand levels that were considered were “high” (best case scenario) and “low” (worst case scenario). Since the project will be financed by a bank loan at 11% per annum, 11% was used as the discount rate for the NPV appraisal.

Meanwhile, the HR director raised concern that Cuppcar usually looks for a 3 year payback period with regard to new dealerships and why this investment is being pursued when it does not meet the target payback period.

Attachment 2: Fleet leasing

Cuppcar will be leasing out three used Nexus cars for a period of two years to United Holdings. Cuppcar's mechanics have confirmed that these cars are in good running condition and can be used for at least eight more years, if not more, without any major technical issues.

The terms of the lease are:

- The lease term shall be two years commencing from 01st March 2024 with the option for United Holdings to extend the lease for a further period at market rate.
- The lease rental shall be \$240,000 p.a.
- Cuppcar will cover car servicing and repairs not caused by the lessee during the lease period.
- If the lease is cancelled during the lease period, United Holdings shall bear the legal costs of cancellation.



Suggested Answers are available at:

www.studyattcs.com

