

CGMA MAY 2016 EXAM ANSWERS

Variant 2

The May 2016 CGMA exam can be viewed at

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SECTION 1

Task 1

Arguably, Nature View is acting unethically on a variety of grounds.

There is a lack of integrity in some of the issues being raised in the programme. For example, the fact that we do not announce the death of a performing dolphin does not, in itself, support the argument that we abuse these creatures. The fact that we choose not to cause distress to the many visitors, especially children, who enjoy watching the dolphins perform is hardly grounds for concern. The fact that we are being singled out, when there are many other parks that keep dolphins, is also a journalistic device to make the programme more compelling. It also has the effect of presenting Dreem Depths in an unfair light.

There is a major question over confidentiality. The broadcaster is using footage of an alleged employee who claims to be describing events that he witnessed whilst working at Dreem Depths. This material has been obtained in clear breach of our right to confidence on the part of our employees.

There could also be a lack of objectivity in terms of the lack of evidence being presented in support of the employee's allegations. Viewers will regard these claims as facts, even though we do not know what the employee has said, whether it is true or even if he was a genuine member of training staff.

Unfortunately, Nature View could rebut these concerns very easily.

It might argue that it is behaving with integrity because it is exposing the serious harm suffered by captive dolphins. This is a legitimate concern for a documentary team to broadcast. Its use of Dreem Depths as an example could be justified on the basis that our dolphins are at risk even though we adopt a higher standard of care than many other parks. If it can prove a case against us then the fact that there are worse offenders strengthens the argument that all parks ought to be forced to release their dolphins.

The use of the footage of the former trainer may breach confidentiality, but Nature View might argue that the breach is in the public interest. Certainly, if the claim that we punish animals for non-cooperation can be proven, we may have committed a criminal act. If that claim reflects a company policy then it undoubtedly is a matter that ought to be brought to the attention of the authorities.

The fact that we have not been permitted to view the programme and to offer our response does imply bias and so a lack of objectivity. Even so, we are a major corporation with the means to hire excellent public relations consultants. We have the means to defend ourselves in our response to the documentary.

Overall, we are probably unable to defend the claim that Nature View has acted unethically.

Task 2

Dreempark's strategic position is complicated by the fact that Dreem Depths is but one part of the overall business. It is, however, an important part because Dreem Depths is potentially of interest to visitors of all ages. Dreem Forest is aimed at families with young children, while Dreem Blast is for older visitors. All visitors to these attractions may decide to visit Dreem Depths because it can cater to a wider range of ages.

If Dreempark cannot offer visitors the prospect of at least two major parks then it might lose much of its appeal. From a strategic point of view, Dreempark needs either to retain Dreem Depths in its present form or offer change that does not make a visit any less attractive.

The basic sales proposition offered by Dreem Depths is a relatively small scale set of rides, which do not rival those on offer at Dreem Blast for older children and adults or those catering for youngsters at Dreem Forest. There is an aquarium, which may be a moderately attractive proposition, but most visitors can probably find an aquarium within easy travelling distance of their homes and an aquarium is unlikely to be particularly attractive. The one major novelty that has the potential to attract visitors and to offer a focus for publicity is the dolphin show, so closure would have the potential to cause a significant strategic loss to Dreem Depths and, in turn, to Dreempark.

The Board should consider the possibility that the safe release of the dolphins will offer a major boost to Dreem Depths' popularity. The release itself will be regarded as highly newsworthy and Dreempark should be able to ensure that national and international media coverage is extensive. In the short term, the fact that the release is being planned will create positive publicity and visitors might be attracted by the prospect of the last chance to see the show.

The fact that the dolphin show is presently the main attraction does not necessarily mean that visitor numbers cannot be maintained if it is closed. The important thing is for the Board to aim for an alternative attraction that is capable of replacing the sense that a visit to Dreem Depths has some purpose. It should be possible to develop an alternative attraction to replace the dolphins. For example, a live act featuring human performers might appeal to a wide cross-section of Dreem Depths' visitor base. Ideally, the show (or other attraction) would have an aquatic theme, but that is probably not such a vital issue in itself provided it has a wide appeal. The strategic loss will only arise if the dolphins are released and the attraction is replaced with something that is significantly inferior.

SECTION 2

Task 1

We should recognise that the key factor is Dreem Depths' legitimacy in the event of a calamity. The public is likely to blame Dreem Depths for almost any problems simply because the dolphins were only at risk because they were in captivity, so any injuries sustained during their release is ultimately Dreem Depths' fault.

Dreem Depths should appoint a custodian to oversee the transportation and rehabilitation of the dolphins. That way, it should be possible to make a more credible claim that Dreem Depths had done everything in its power to ensure the safe release of the dolphins.

The custodian should be independent of both Dreem Depths and the transportation company and the refuge. This will ensure that any statements that they make in support of Dreem Depths is credible. It might be possible to obtain the services of a leading environmental campaigner or charity to undertake this task. Ensuring the safe release of the dolphins would be consistent with their mission, and so they could accept Dreem Depths' payment without necessarily compromising their independence. Provided Dreem Depths is careful to pay for a high standard of care, there should be no reason for the independent custodian to criticise our involvement. We should make it clear to the custodian that we wish it to be impartial and to act in the best interests of the dolphins.

Dreem Depths should insist that both the transport company and the refuge should consult with the custodian at every stage of the operation. This will give the custodian the opportunity to verify that every reasonable precaution is being taken. It will also enable the custodian to allocate blame in the event that a lapse or failure to adhere to the agreed procedures occurs. The custodian should be present for crucial events, such as the transportation of the dolphins and their release into the secure environment at the refuge.

As far as possible, the custodian should either make video recordings of this process or Dreem Depths should have a film crew to observe. This will enable Dreem Depths to offer its own footage for broadcast either for news or documentaries. Our ownership of the footage will make it possible to present the story in a positive manner.

Task 2

The reasoning behind the decision to release the dolphins and the impact on future business should be presented in the strategy section of the report. This will ensure that shareholders do not lose too much confidence because of the loss of this major attraction. It should be made clear that the continuing employment of the dolphins was rapidly becoming unsustainable as a business proposition. This should reassure the shareholders that the Board had not put the welfare of the animals (which were the property of Dreem Depths) before the financial interests of the shareholders.

The corporate social responsibility discussion should commence with a more detailed discussion than usual of Dreem Depths' commitment to the welfare of the animals in its care (at Dreem Depths or elsewhere in the group). This should indicate that the Board had been concerned for some time about the suitability of dolphins for a life of captivity. We do not wish to directly acknowledge that company policy on this important matter has been dictated by a negative television documentary.

We should stress that the dolphins had received the very best of care while living at Dreem Depths and that the trainers were highly trained experts in looking after these animals. We might indicate that we spent a significant amount on maintaining excellent facilities and in providing the creatures with a safe and stimulating environment. This should refute some of the concerns raised during the documentary.

We should describe the decision to return the dolphins to the wild in some detail, stressing that we had to consider whether the journey and the training for release would be in the animals' best interests. We should indicate how we reached this decision and should indicate whether we sought independent advice from experts in this area. Overall, we need to demonstrate that we have behaved responsibly and that we have taken care to ensure that the dolphins would not have been better off in captivity.

Finally, we should disclose the costs associated with the transportation and rehabilitation of the dolphins. This will provide further evidence that we are taking care of the dolphins. It may also yield some goodwill in return for the significant expense that Dreempark is incurring.

SECTION 3

Task 1

It will be difficult to predict the market response to the news concerning the screen. Apart from anything else, the capital markets are aware that we will have been under pressure to replace the dolphins with an alternative attraction and that awareness will have offset the decline in the share price. The capital markets will be unaware of the timing or the precise nature of the new attraction, so there could be a reaction when we make our announcement.

The more information we can release concerning the new attraction, the more confident the market response will be. Presumably, we have the results of test marketing or market research to draw upon.

The problem that we might face is that the idea of large multimedia screens is not particularly novel and so it is debatable whether this will attract visitors in the same numbers as the dolphin show. It seems unlikely that the share price will return to the same level as before the dolphins were removed.

It could be worth discussing this project with the market analysts who specialise in our industry. They could be briefed on a confidential basis in the hope that their recommendations will boost the share price when our intentions are made public.

Task 2

We should consider whether we need to hedge because there may be a degree of natural hedging available to us. We might receive some ticket revenues from US visitors and they might offset our outgoings, at least to an extent. We would simply bank those in a USD account and use them to offset our outgoings.

We have a fairly steady and predictable set of payments over the next few months and we might buy USD forward. That would require making a margin payment immediately, which would be bad for cash flow. It would, however, fix the USD rate on those payments.

Looking further ahead, we have the potential to be making payments in the event that the dolphins remain in the refuge, but those payments are uncertain. The most viable means of hedging those costs would be to buy options to give us the right to buy USD at an agreed rate. There would be a premium to be paid that might yield no benefit if we do not exercise the option, but at least we would have that flexibility.

Task 3

The feasibility is affected by a variety of factors.

First of all, we are already heavily geared and so we might find it difficult to raise a loan under any circumstances. US lenders might be deterred by the fact that we are operating in

a completely different jurisdiction and so they might struggle to enforce their rights through foreign courts. We could offer security over our property, although a US bank may not wish to risk becoming the owner of a theme park in Europe.

The second question is whether it would benefit us to do this. The loan would generate a USD inflow that would match the immediate outflow for the equipment. This would then leave us with an exposure to a strengthening of the USD in terms of both interest and capital repayment. This exposure would run further into the future and would, therefore, be far more serious than that on the equipment's capital cost.

Task 4

Dreem Depths should ensure that there is a comprehensive set of procedures concerning the care of the animals at the parks. These should be developed in consultation with independent zoologists and other experts. Once there is a procedure in place, internal audit can be tasked with testing compliance on a regular basis. The Board should create a sound control environment with respect to animal welfare by acting on any compliance failures reported by internal audit.

The internal audit department could also review all available reports on animal welfare. There should, for example, be internal reports on indicators such as veterinary checks and animal mortality. Any concerns should be discussed with management and reported to the Board. The internal audit department could also discuss the welfare of the animals with the trainers who look after them. Auditors are trained to ask open-ended questions and to interpret the response carefully.