

Management level integrated case study – Examiner’s report**August 2017 exam session**

This document should be read in conjunction with the examiner’s suggested answers and marking guidance.

General comments

This case study was based on Aurora, a multinational car manufacturer. Aurora produces a diverse range of models and it follows the common practice in the motor industry of sharing parts to the greatest possible extent. This creates a number of challenges at the management level. The pre-seen material described the company and its approach to doing business in some detail. The expectation is that candidates should read this and develop a deeper understanding of the industry through basic research carried out online. There was evidence that candidates were making use of this opportunity. The only danger is that candidates were often tempted to offer comparisons with recent events that had little to do with the requirement. Marks were given for all relevant arguments, including those based on real-life examples. Those arguments must, however, be relevant. A contrived reference to say, scandals concerning emissions scandals will do nothing to improve a mark.

The variants themselves were in the usual format. There were four separate tasks, each of which was broken down into two or three requirements. Time management continues to be a problem in some cases, with an extensive answer to the first requirement followed by a much briefer answer to the second. If there are 45 minutes available for a task with two requirements then it remains advisable to spend just over 20 minutes on each requirement.

Previous reports have remarked on an ongoing improvement in business awareness. That remains to be an encouraging development, with candidates demonstrating some ability to make sensible commercial decisions.

Technical tasks are still proving challenging for candidates, there were many weak answers on financial reporting issues and management accounting.

Summary

Overall, the standard of scripts was good. Candidates seemed to understand the industry and were able to make sound commercial decisions.

Variant 1

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Review project appraisal	Technical skills	P2 D1a - apply sensitivity analysis
	Evaluate political risks	People skills	E2 A2a - distinguish between different aspects of the global business environment ...
Task 2	Advise on interpretation of financial statements	Leadership skills	F2 C1a - calculate ratios relevant for ...
	Advise on inventory management	Technical skills	P2 A1b - evaluate TQM techniques
Task 3	Advise on benchmarking	Business skills	P2 B2a - prepare performance reports for the evaluation of projected and actual performance
	Recommend disciplinary procedure	People skills	E2 B1b - discuss HRM approaches for managing and controlling individuals' performance
Task 4	Advise on negotiation	Business skills	E2 C2a - discuss the roles of communication, negotiation ...
	Discuss real options	Technical skills	P2 C1b - discuss the financial consequences of dealing with long-run projects ...
	Advise on consolidation	Leadership skills	F2 B1a - produce primary financial statements ...

Comments on performance

Task 1

Requirement 1

The first part of the requirement was very disappointing with many candidates only discussing the fact that the NPV was positive and so should be undertaken. As is quite common with many students they just accepted that the figures provided in the NPV would be correct so didn't question the annual savings or the use of probabilities or if the costs were complete, they were happy to assume the outcome would be \$2.5m. Most candidates mentioned the WACC with weaker candidates accepting that the 12% local cost of debt was the correct figure as money was to be borrowed from Essland.

Requirement 2

This was quite disappointing as candidates mainly didn't provide enough depth to their answers or cover sufficiently each of the three areas required. For about half of the candidates this part of the answer just focussed on redundancies and was often a repeat of the answer written above with the possible inclusion of some reputational damage.

Task 2

Requirement 1

For this requirement candidates focussed too much on the calculations provided instead of discussing the suitability of using the FS to calculate a meaningful ratio. Many candidates did discuss the issue of consignment stock and how this was skewing the figures with candidates discussing "substance over form" or providing details of revenue recognition and "risk and rewards". For candidates these discussions on consignment stock were generally good.

Requirement 2

Candidates generally did better here as they were happy to discuss JIT and most seemed very knowledgeable about it and tended to get a pass for this part. Candidates were also keen to mention that the success of JIT shouldn't be measured purely by a financial ratio as other non-financial aspects should be looked at too.

On the need to hold inventory other than consignment stock this could be very limited, although there were discussions about the length of time taken to build a car, and the need for customers to be able to see the cars at dealerships.

Task 3

Requirement 1

This tended to become an answer discussing how benchmarking could be done with often a short paragraph each on internal and external benchmarking along with the difficulties in getting the information needed. This did get credit but weaker answers were limited to this discussion. In terms of measuring effectiveness most candidates did mention rewards or action needed if targets were met/not met so most did achieve some credit.

Requirement 2

These were usually well answered as most candidates are happy to discuss a disciplinary process. The problem with weaker candidates is that they just list out a process ie oral warning, written warning etc with no added detail which limits the amount of credit that can be given and makes the answer just general rather than directed to the scenario.

Task 4

Requirement 1

This seemed to be quite well answered for many candidates. With the weaker candidates they focused on Aurora's viewpoint about what price they should accept rather than discussing the conflict between the two sides and how they would need to compromise. There were however some very good answers with candidates realising that Aurora would still have additional costs so a simple costing approach based on saving parts and labour would not be enough and this had to be taken into account during the negotiations.

Requirement 2

It seemed like only a small minority of candidates covered the real options so this part was usually poorly answered. However, when candidates did discuss them they showed very good knowledge and high marks could be awarded. Most answers focused on evaluating the offer from Platt and they did usually discuss the closing of the Essland factory, quality issues and Platt's reputation or comments about capacity so this part was done fairly well.

Requirement 3

There were some good answers here as candidates would set out what a JV or related party was, explained that it wasn't relevant here and why, and a few did indicate that disclosure could be made anyway to keep shareholders informed. The weaker candidates believed the arrangement would be a JV or associate. Generally candidates didn't provide as much detail on related parties. For too many candidates though the response here was quite brief.

Variant 2

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Advise on evaluation of manager	Leadership skills	P2 B1a - discuss the information needed for decision making in different organisational structures
	Advise on consolidation	Technical skills	F2 B1b - discuss the need for and nature of disclosure of interests in other entities
Task 2	Advise on improving profits	Business skills	P2 A1c - discuss techniques for enhancing long-term profits
	Advise on negotiation	People skills	E2 C2a - discuss the roles of communication, negotiation, influence and persuasion in the management process
Task 3	Advise on accounting treatment	Technical skills	F2 B1c - discuss the provisions of relevant international accounting standards ...
	Advise on product pricing	Business skills	P2 C2a - discuss pricing strategies and their consequences
Task 4	Evaluate political risks	People skills	E2 A2a - distinguish between different aspects of the global business environment ...
	Evaluate project	Technical skills	P2 C1a - analyse information for use in long term decision making ...
	Advise on strategy implementation	Leadership skills	E2 A1b - compare and contrast alternative approaches to strategy development

Comments on performance

Task 1

Requirement 1

This was an excellent test of a candidate's ability to demonstrate logic, ethics and commercial awareness. Unfortunately, very few candidates demonstrated all three abilities. The single biggest failure was in failing to recognise that Robin was no longer an employee.

However, many did recognise these aspects and balanced the need for careful progression of objectives which could not be misconstrued by the Ministry of Finance and looked to resolve the hopefully short term dilemmas presented.

Requirement 2

Many scripts recognised immediately that control was no longer substantial in any way. However the majority of those went on to give a cursory overview of the splitting out of and consolidated elements.

Better candidates argued that control might return, but in the meantime was lost and the financial statements should not only reflect the separation of Engines from the statements in detail but should contain notes as to the circumstances surrounding the event with statements as to Aurora's conduct and the recognition that although assets should be returned, this was outside the control of the board and investors should be assured that all actions would be taken for a positive outcome.

Task 2

Requirement 1

Many candidates confused this with target costing rather than value analysis. These went on to give line by line examination of individual cost categories in order to cut costs thus ignoring the 'customer value' aspects. Very few analysed the total package in terms of market competitiveness, with some assumptive behaviour that the cost might simply have to be increased without regard to loss of market share.

Requirement 2

This was rather poorly answered by many candidates. Very few positioned themselves to deal adequately with the driving forces behind the government's position. The average candidate was able to make some attempt to identify the groups negotiating position even if much of their work centred round the process of negotiation rather than its substance.

Task 3

Requirement 1

A large number of candidates did not directly answer the question posed about cash flows and financial reporting, many wasted considerable time and energy by discussing the commercial details of the proposed new contract terms and whether the dealers would agree to them or not or indeed the impact on dealer's morale.

Better candidates got straight into the implications on cash flow and financial reporting. Few however brought out any conflict with the JIT customised to order which underlies this regime.

Requirement 2

Candidates generally understood the marketing benefits of product bundling and optional extras. A few candidates recognised and matched the need to bundle at certain less popular times to shift product, notably away from new registration times, or as a way to clear slow moving dealership stock.

Overall the better scripts discussed differentiation and individual ownership which had been brought out in the pre-seen and was evidenced by some examples in answers. Occasionally reference was made to more profit in the extras than in the base model to which they were applied, which is exactly what the objective is in upselling.

Task 4

Requirement 1

Most scripts scored well in this task as candidates were able to identify the wide range of risks evident in any overseas investment proposal, particularly referencing the need to avoid a repeat situation.

Requirement 2

Many candidates thought the assets were being repatriated, so they might be deployed in the new factory!

These candidates failed to grasp the conflict elements of the potential U turn and the whole question of uncertainty surrounding the immediate future. Responses often slipped into a discussion on the merits and demerits of joint venture ownership, with little regard to any conflicting events or dilemmas.

Requirement 3

There were some good answers to this task with candidates discussing the emergent/rational planning models stressing that any business should not ignore obvious opportunities to embark on new ventures as this is effectively what start-ups do. Better scripts recognised the opportunity cost of abandonment of old practice but in this case as the rupture has been created externally it is an excellent opportunity to benefit from change.

Variant 3

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Advise on maintaining sustainable advantage	Business skills	E2 A1c - explain the approaches to achieving sustainable competitive advantage
	Advise on product lifecycle	Technical skills	P2 A1c - discuss techniques for enhancing long-term profits
Task 2	Advise on consolidation	Technical skills	F2 B1a - produce primary financial statements for a group of entities
	Advise on suitable responsibility centre	Leaderships skills	P2 B1a - discuss the information needed for decision making in different organisational structures
Task 3	Advise on team responsibilities	People skills	E2 C1a - evaluate the issues associated with building, leading and managing effective teams
	Advise on transfer pricing	Technical skills	P2 B3b - discuss transfer pricing systems
Task 4	Advise on impairment	Business skills	F2 B1c - discuss the provisions of relevant IAS ...
	Advise on business risks	People skills	P2 D2a - discuss risk management
	Advise on disciplinary action	Leadership skills	E2 B1b - discuss HRM approaches ...

Comments on performance

Task 1

Requirement 1

Candidates tended to focus on the concept of environmental sustainability rather than the wider issues of maintaining a sustainable business advantage. Marks were awarded for arguments concerning environmental responsibility where they were linked to the scenario.

Requirement 2

Answers generally demonstrated an understanding of the management of the product lifecycle. Answers were generally relevant and well structured.

Task 2

Requirement 1

The quality of the arguments offered in the first part varied according to whether, or not, the candidates fully appreciated the definition of the parent-subsidiary relationship. Many candidates were fixated on the fact that only 49% of the shares would be purchased. While that is a relevant consideration, it can be argued that the ability to control the decisions made by the board gives control, despite the minority shareholding.

Requirement 2

The discussion of investment centres was generally more consistent with candidates offering logical arguments. It was recognised that Lemarr Engineering would require some autonomy in order to continue to deliver value.

Task 3

Requirement 1

Answers offered contradictory recommendations, but the important thing is that candidates generally justified their positions. While this decision is an important one, it would require some carefully balanced decisions and there was not necessarily a single correct answer.

Requirement 2

Answers varied in quality, depending on whether candidates were focussing on the nature of the transaction. The fact that the transfer is in the form of the use of intellectual property does not necessarily affect the basic issues associated with transfer pricing decisions, but it has the capacity to complicate those decisions.

Task 4

Requirement 1

Answers to the first requirement were generally good. Candidates understood the issues arising from impairment reviews and were able to link those to the scenario.

The business risks were generally understood and most candidates offered a range of arguments.

Requirement 2

The discussion of disciplinary action varied significantly in quality. There are some conflicting arguments to be balanced in this case. The better answers teased those out and drew an overall conclusion. Weaker answers tended to simply apportion blame and press for action.

Variant 4

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Advise on accounting for acquisition	Technical skills	F2 B2b - demonstrate the impact on the group financial statements of consolidating a foreign subsidiary
	Advise on KPIs	Business skills	P2 B2b - discuss traditional and non-traditional approaches to performance measurement
Task 2	Advise on disciplinary action	Leadership skills	E2 B1b - discuss HRM approaches for managing and controlling ...
	Advise on redundancy	People skills	E2 B1b - discuss HRM approaches for managing and controlling ...
	Advise on Kaizen costing	Business	P2 A1b - evaluate TQM techniques
Task 3	Advise on transfer pricing	Technical skills	P2 B3b - discuss transfer pricing systems
	Advise on interpretation of segmental report	Leadership skills	F2 C2a - discuss the limitations of ratio analysis based on financial statements
Task 4	Recommend approach to briefing project team	People skills	E2 D2c - discuss management and leadership issues ...
	Advise on pricing strategy	Technical skills	P2 C2a - discuss pricing strategies and their consequences

Comments on performance

Task 1

Requirement 1

There were a wide range of points candidates could make here, and better answers did focus appropriately on the foreign exchange issues, such as the requirement to translate assets and the treatment of exchange gains and losses. The calculation of goodwill was also an appropriate issue for discussion. Weaker answers were very vague and merely stated that forex balances should be translated, without demonstrating any technical knowledge regarding which rates should be used. Some candidates made little or no reference to either currency or goodwill issues.

Requirement 2

Whilst better candidate approached this requirement well, many made two key errors; the first, providing a list of KPIs with no justification, the second, ignoring the reference to the transitional period. So, whilst there were many good suggestions focussing appropriately on the need to maintain quality standards, retain key skilled craftspeople and implement new technology, there were also answers which merely provided long lists of KPIs which were not particularly relevant to the transitional situation or accompanied by any meaningful justification. The weaker answers often consisted of general KPIs which could be used for managers without any application to the specifics of the scenario.

Task 2

Requirement 1

The discussion of disciplinary action, was generally well addressed. Many candidates correctly pointed out that the reason behind the repeated errors should be investigated before disciplinary action commences, and that the provision of further training might be appropriate. Many also identified the impact on employee morale as an issue. Several candidates suggested that errors could lead to health and safety problems and so should be treated very seriously.

The issue of potential redundancies was also generally well answered. Many candidates made sensible suggestions such as trying to redeploy skilled staff, and recognised the need to communicate clearly and the possibility of union involvement.

Requirement 2

The requirement to evaluate Kaizen costing was less well addressed. It was clear from some responses that the candidate had little, or no, knowledge of this technique. Relatively few identified the tension between the desire to cut costs and the need to maintain high-quality standards.

Task 3

Requirement 1

This was generally quite well attempted. Candidates raised valid points including the behavioural consequences. Many also commented on the potential taxation impact of the pricing policy. Relatively few actually made any use of the numbers provided to illustrate their answers.

Requirement 2

The issue of segmental analysis was less well explored. Many candidates did not appear to divide their time equally between the two elements of task 3, and produced quite scant responses to this section. Few showed technical knowledge in this area and the issue of the treatment of joint costs and inter-company profits causing complexity in calculations was very rarely identified. Many candidates identified the value of the information to internal and external users and made general comments about information being useful for decision making without demonstrating knowledge of what should be disclosed.

Task 4

Requirement 1

Many candidates made sensible suggestions for matters to be addressed at the initial briefing, including consideration of time and cost-effectiveness and avoidance of errors made in the past. Consideration of the choice of leader for the team was also generally well discussed with some good answers, weighing up the pros and cons of each option and then making a clear recommendation. On the other hand some of the weaker answers were very brief. Many candidates did recognise that the Finance Director should not be dealing with design.

Requirement 2

This elicited a wide range of recommendations for pricing of the car, many candidates produced a reasonable discussion of this although some did not really comment on the impact on design. Generally, the pricing issues were addressed quite well.

Variant 5

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Advise on competitor analysis	Business skills	E2 A2b - discuss the approaches to competitor analysis ...
	Discuss risks	Technical skills	P2 D2a - discuss risk management
Task 2	Advise on consolidation adjustments	Technical skills	F2 B2a - demonstrate the impact on the financial statements of ... disposing of all or part of a shareholding
	Advise on relationship with finance	Business skills	E2 C1b - discuss the effectiveness of handling relationships between the finance function ...
	Advise on use of non-financial performance indicators	Leadership skills	P2 B2b - discuss traditional and non-traditional approaches to performance measurement
Task 3	Advise on pricing	Technical skills	P2 C2a - discuss pricing strategies and their consequences
	Advise on issues associated with merging operating units	People skills	E2 D2c - discuss management and leadership issues associated with projects ...
Task 4	Advise on relevance of ABC	Technical skills	P2 A1a - evaluate activity-based management
	Advise on financial reporting issues	Leadership/People skills	F2 B1d - produce the accounting entries ...and F2(B1e - discuss the ethical selection and ...

Comments on performance

Task 1

Requirement 1

The first part of the task was answered reasonably well. Candidates should have recognised that competitors have their own marketing strategies for developing and marketing vehicles and many candidates did. They also have the vehicles themselves and those may be associated with specific features that could attract customers away from Aurora,

Answers should have reflected the fact that Aurora sells new cars and so the decision to buy an Aurora car is a major purchase that will be significant to customers. Buyers are unlikely to experiment or take risks over a buying decision that sets aside the market's conventional wisdom. Many candidates answered this part very well.

Requirement 2

Candidates could have offered any two risks that they could justify as being "key". Many candidates discussed key risks which was very good, others clearly just did not think and mentioned many very obscure risks. Marks were not awarded for general risks.

Most candidates were able to discuss sensible risk mitigations which was good.

Bullet points are not acceptable candidates should always try and expand and have some discussion.

Task 2

Requirement 1

Candidates should have been aware of the accounting adjustments associated with the disposal of a subsidiary because that is one of the topics introduced at this level. Ideally, answers should have reflected the ways in which the figures will change and discuss how the overall position and performance will be affected. Unfortunately candidates are not good at financial reporting, in many cases the answers were a couple of lines and very vague. Candidates should have learnt the technical issues associated with financial reporting in order to score well in this case study.

Requirement 2

This required a discussion of the manner in which the engineers in the Track subsidiary were permitted to indulge their enthusiasm for making fast cars, without there being a corresponding attempt to control costs and make sales at a profit. There has been a failure on the part of the finance function to establish any meaningful control over the subsidiary. This part was generally done quite well by candidates with many coming up with good ideas of how costs could be controlled. As usual there were some poor and

mediocre scripts which did not go into enough depth on cost control. It was not enough to say they need to control cost some good strong suggestions were required.

Requirement 3

Candidates should have been able to identify Track's potential to contribute to both the publicity associated with Aurora cars and also the development of features that might be offered on production models. The losses sustained by Track could be presented as a very inexpensive cost for the potential marketing and development benefits.

Candidates may have chosen to bring in the opportunity arising from the renewed interest in performance models. Track creates scope for developing cars that are built for speed and, hopefully, safety. This section was very poorly answered by many candidates, many answers did not go into any real discussion in this section.

Task 3

Requirement 1

Answers should have recognised the fact that the new Velocity models may simply displace the Sport models, which is presumably unacceptable to Aurora. The pricing decision is, therefore, complicated by the need to maximise revenues across the entire range of models and not to aim for sales of the new models in isolation. Very few candidates answered this very well, most people said they should aim for sales of the new models with little further explanation.

Candidates could have argued for a halo effect, with it making little difference that the Velocity model is out of reach. Customers may be attracted to a more basic model simply through association.

Requirement 2

Candidates needed to be clear about the challenges associated with motivating the team at Track to engage with this project. It is realistic to express concern about the motivation of Track's engineers with respect to working on what are essentially mass market cars. There are also arguments about the suitability of engaging this team on a project where mass production will be an issue because the team has always worked on individual cars and has not had to consider the challenges of mass production. This component on 'integrating Track' was less well answered, particularly in terms of explaining the issues with regard to the lack of expertise/experience of mass production systems. Many candidates also provided poorly integrated responses to the components of this part of the examination.

Task 4

Requirement 1

Candidates should have avoided the knee-jerk reaction of arguing that a more sophisticated costing system should be adopted simply because of its sophistication. Well-founded arguments in favour of ABC were, of course, given credit as candidates could argue for it if they so wish. The suggested solution offers a range of arguments against the implementation of ABC. Most candidates wrote a reasonable amount on activity based costing (ABC), but fewer related the issues to relevant parts of the case scenario. In particular, the implications of automation for ABC were often not well developed or even explained in a satisfactory manner.

Requirement 2

The discussion of segmental analysis required candidates to think about whether shareholders have a legitimate reason to require further disclosures in that area. Arguments should have been couched in terms of the business as well as the rules in the IFRS. The issues concerning segmentation under IFRS 8 were in the main dealt with very well and there were some very good answers.

The ethical issues are still relevant, even if the candidate argues that no additional segmental analysis is required. The discussion on ethical issue was very weak and in many cases simply absent from the answer. Ethics is often a weak area for candidates and it would be advisable to read the suggested solution to see what could have been said.