

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

**General comments**

This case study was based on a pre-seen scenario which described a camera manufacturer. The pre-seen was made available before the exam and five variants were set, each presenting additional scenario-based information and setting four tasks to be completed. Each task was further split into two or three specific requirements.

The camera industry has gone through a number of changes in recent years, with the development of new formats and the integration of cameras into other devices, primarily smartphones. Cameras are essentially consumer products and so information about the industry should be reasonably accessible to candidates. Candidates should know what a camera is, even if they do not own one. Furthermore, photographs are a major element of social media, even if most the photographs posted online are taken using smartphone cameras. Overall, candidate performance was in line with previous diets. There were, however, two main areas of concern.

Firstly, many candidates struggled to relate the P Pillar syllabus to the requirements in the scenario. There was a tendency for candidates to describe techniques in an abstract manner, without applying them to circumstances in the case. Such an approach did not reflect the requirements of the paper and so marks were lost.

Secondly, there was a further deterioration in knowledge of the F Pillar syllabus. The concerns expressed in previous reports appear to have been overlooked because many candidates showed very little understanding of the content of the F2 Advanced Financial Reporting syllabus. Candidates continue to demonstrate an awareness of business and that of practical management which is clearly desirable. However, in order to score well, this knowledge must be coupled with an understanding of the technical syllabus content.

**Variant 1**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Syllabus lead learning outcome:</b>
<b>Task 1</b>	Identify factors to be considered in determining the optimal pricing strategy.	People skills	P2 C2a - discuss pricing strategies and their consequences
	Recommend approach to maximising competitive advantage.	Business skills	E2 A1c - explain the approaches to achieving sustainable competitive advantage
<b>Task 2</b>	Evaluate proposed change to distribution model for specific products	Business skills	P2 A1a - evaluate activity-based management
	Evaluate need to account for a business contact as a related party	Technical skills	F2 B3a - discuss the need for and nature of disclosure of transactions between related parties and F2 B1e - discuss the ethical selection and adoption of relevant accounting policies and accounting estimates
<b>Task 3</b>	Recommend response to managers who believe that their budgeted targets should not be enforced	Technical skills	P2 B2c - discuss the criticisms and behavioural aspects of budgeting in responsibility centres
	Advise on the relevance of the finance director's opinion on a marketing matter	Leadership skill	E2 C1b - discuss the effectiveness of handling relationships between the finance function and other parts of the organisation and the supply chain
<b>Task 4</b>	Identify the business risks associated with grey imports	People skills and Leadership skills	P2 D2a - discuss risk management and E2 B2b - explain the importance of organisational culture
	Evaluate impact on accounting ratios and on interpretation of segmental analysis	Technical skills	F2 C1b - evaluate the financial performance, financial position ... and F2 C2a - discuss the limitations of ratio analysis based on financial statements ...

## Comments on performance

### Task 1

In the first requirement, the candidates were asked to discuss the issues that should be considered before setting the selling prices of the MPM range.

Probably there is a correct answer in the context of this scenario and that Montel is selling a high-quality product that may not be entirely discretionary for those customers who need the very best. There is also a limit to the quantity that can be manufactured, so increasing sales volume is unlikely to be an issue. Issues of quality and excellence could have been discussed and the high costs of producing the products. Demand was also an important issue.

Candidates were awarded marks for all reasonable discussion of pricing issues, as long as the answers related to Montel, the pre-seen and scenario. On the whole this requirement was answered reasonably well.

In the second requirement, candidates were asked, how Montel could maximise the competitive advantage that they hope to gain from the MPM range.

The main issue is that the new camera may be better than competitors' existing models, but Montel will have to ensure that potential customers fully understand the benefits. This implies that Montel must understand the benefits that it is offering so that they can be properly promoted and explained. This is an expensive product and potential buyers probably have at least one high-quality camera that may be considered good enough.

The suggested solutions offers some suggestions as to how Montel should proceed, but those are intended to be indicative. Any and all realistic alternative should be marked on their merits. Montel gains competitive advantage by having a very high-quality product and yet only few candidates really commented on quality. Candidates missed an opportunity by failing to discuss this obvious strength. Answers were very vague and did not really answer the question.

## Task 2

In the first part of this task candidates' were asked to explain the factors that Montel's board should consider when evaluating David's proposal to change the manner in which we distribute our Professional cameras.

The most immediate issue is whether this distribution channel will be good or bad for sales. Candidates should reflect the nature of the product in their answers, particularly its price and its very technical nature. There were some good answers which discussed these issues. The suggested answer offers possible arguments for potential gains and losses in terms of the impact on volume, but candidates are free to argue a case for just one of those possibilities.

There is also the question of whether the costs of selling through Pronto Computers will affect costs, very few candidates discussed this issue. This question is complicated by the fact that Montel has two types of outlet and each could have very different cost structures. There were some good issues raised by many candidates – issues like: the effect on the brand and the reputation of Montel.

In the second requirement, candidates were asked to explain whether accounting regulations and shareholders' information needs, would be required to be accounted for Pronto as a related party.

This requirement raised some subtle issues. It is debateable whether the uncle/niece relationship necessarily falls within the definition of close family member, as discussed in IAS 24. That raises a technical argument as to whether the relationship would warrant disclosure. The fact that the two managers in question are both board members means that the companies would be related parties if the family relationship is established.

Regardless of whether IAS 24 requires disclosure, the shareholders are likely to be concerned that their company is entering into a business arrangement with a company, whose director is related to one of their non-executives. There is certainly an ethical argument that suggests that the shareholders should be informed.

Unfortunately, this requirement was answered very badly, it is disappointing to see, candidates are weak at technical issues particularly when it is concerning the F pillar. Candidates must ensure they understand financial reporting issues and be able to discuss.

Many candidates discussed the fact that they were related must mean they were a related party. This showed a complete lack of understanding.

### Task 3

First requirement asked candidates' to explain whether the sales managers, who are responsible for Montel-branded shops, should be permitted to deny responsibility for meeting budget targets under these circumstances.

Candidates should focus on the specific issues arising from the scenario. Montel has created a distribution channel that is being circumvented by unforeseen market forces that could interfere with meeting targets, which could undermine morale if Montel makes no allowances for the problem. Few candidates discussed this in depth and did not score high marks.

There could be a counter-argument that Montel should be able to set budgets and that managers should do their best to achieve them. If candidates make that argument then they need not give it the same weight as the basic argument that Montel should address the sales managers' concerns.

Marks were awarded where candidates discussed the issues well and put up convincing arguments.

Some answers were very disappointing and made no argument and just repeated that they thought it was fine for managers to deny responsibility for the budget without giving good reasons. On the whole this requirement was answered poorly with very badly developed discussion of the main issues.

The second requirement asked how the Finance Director should respond to the reaction from the Sales Director concerning his suggestion for change.

Candidates' should be able to argue that the finance director should have sufficient understanding of the company and its strategies to enable him or her to offer a considered opinion on most matters. Most board members should be able to discuss their colleagues' area of responsibility, otherwise there will be a lack of integration in decision making. This was not brought out well in candidates' answers.

There is also a potential argument that the Finance Director's comments are informed by the facts and figures obtained from the management accounts.

It is debateable whether there is a strong argument that the Finance Director should have refrained from commenting on this matter, but candidates' would be awarded an appropriate mark for any valid arguments offered to that effect.

Many candidates' simply said that it was none of the Finance Director's business and came up with some very weak reasoning to support this stance.

Candidates' could have gained high marks just by discussing the issue and the role of directors, they should have also discussed the facts and figures with which the Finance Director could produce to support his case.

#### **Task 4**

First requirement required to identify the business risks associated with these grey market sales and also recommend whether we should accept this sales manager's justification of this practice. This requirement has two elements that relate to different skills, so each should be marked separately, with marks allocated to the correct heading.

The risks discussed in the suggested answer are intended to be indicative and so candidates should be rewarded for discussing any realistic alternatives. Culture is a complicated matter in this case, because Montel's board appears to have permitted the company's culture to be dictated by junior members of staff. Candidates' should recognise that culture is an area that should be actively managed.

These parts were done reasonably well which was heartening. Many candidates gave very good answers on risks but all candidates were weaker when they discussed the justification. Few candidates discussed how to manage the justification and some candidates missed this section out.

The second requirement also had two parts: First to explain the effect that this approach to doing business will have on Montel's key accounting ratios and also to explain whether it will have any implications for the interpretation of our segmental analysis.

The impact on accounting ratios will require candidates' to think carefully about the implications for the business. There may be other ratios that would be affected, but these are likely to be primarily related to profitability. Many candidates managed to discuss relevant ratios reasonably well and scored high marks.

The impact on the segmental analysis will be more complicated because Montel's own sales figures may accurately reflect the location of sales through the distribution network but will not necessarily reflect the final destination of sales. Candidates should have reflected on the reason for publishing a geographical analysis of sales.

This part was very badly answered and was missed out by many candidates suggesting, again, a poor knowledge of F2 topics. Many answers were very brief.

There were issues that could have been discussed but candidates just had very little idea where to start which is very disappointing.

**Variant 2**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Syllabus lead learning outcome:</b>
<b>Task 1</b>	Discuss the application of net present value	Technical skills	P2 C1b - discuss the financial consequences of dealing with long-run projects ...
	Discuss the determination of the fair value of shares issued as a purchase consideration and discuss the implications of the acquisition of a subsidiary for its remaining non-controlling shareholders.	Business skills and Leadership skills	F2 B1a - produce primary financial statements ... and F2 A1b - discuss the markets for and methods of raising long-term finance
<b>Task 2</b>	Identify the factors that affect the determination of an appropriate transfer pricing policy	Business skills	P2 B3b - discuss transfer pricing systems
	Recommend approach to resolving conflict	People skills	E2 C2b - discuss approaches to managing conflict
<b>Task 3</b>	Discuss challenges of applying target costing	Technical skills	P2 A1c - discuss techniques for enhancing long-run profits
	Discuss competitive advantage and the need to delegate authority to design team.	Business skills and People skills	E2 A1c - explain the approaches to achieving sustainable competitive advantage and E2 B1a - discuss the concepts of leadership and management
<b>Task 4</b>	Evaluate impact on accounting ratios.	Technical skills	F2 C1b - evaluate the financial performance ...
	Identify and mitigate operational risks.	Leadership skills	P2 D2b - analyse risk and uncertainty and E2 D2c - discuss management and leadership issues associated with projects, including the roles of key players in projects

## Comments on performance

### Task 1

The case study began by explaining the proposal to acquire Gless and asked the candidate whether it would be appropriate to evaluate the proposed acquisition using NPV and what the challenges would be of doing so.

A good answer here would demonstrate an understanding of the link between net present value and changes in shareholders worth. Many candidates achieved this, although some stated incorrectly that NPV is only appropriate for a project with an initial cash outlay and therefore would not be suitable in this situation. Better candidates also showed a good grasp of the difficulties likely to be faced in using NPV, such as accurately estimating future cash flows. Some weaker candidates stated that NPV was not appropriate with no justification or explanation, instead they listed the approaches they considered more appropriate. Some explained what NPV is at great length and did not have time to address the requirements.

Candidates' were also asked how Montel would determine the fair value of the shares they would issue as a purchase consideration for the acquisition and how the acquisition will affect the former Gless shareholders who accept the offer. This required a discussion of different market prices to establish which would be the most appropriate for the purchase consideration. Better candidates explained why alternatives should be rejected. Whilst some showed a good understanding of the impact on Gless shareholders, some misinterpreted this and discussed the impact on Montel shareholders. This demonstrates the importance of reading the question very carefully.

### Task 2

The second task began by asking candidates' what issues should be considered when formulating a transfer pricing policy for the transfer of lenses from Gless and Montel Northern factories to Montel's shops. Better candidates recognised the need to avoid dysfunctional behaviour such as making lenses in-house rather than buying them from Gless or leaving Gless with too little capacity for the most profitable lenses. Weaker scripts provided very "textbook" discussions of the factors to be considered when setting transfer prices in general without relating them to the specific situation presented here. Such answers often included a list of types of transfer pricing policies without explaining why they might be relevant in this situation.

They were then asked to consider how to address and resolve conflict at Montel's Northtown factory following the acquisition of Gless.

Again, although most candidates recognised that the workers were likely to be unsettled by concerns that their job prospects could be affected by the takeover, some produced very generic recommendations rather than clearly identifying the problem and then



tailoring a suggested solution. Many did not explain the conflict and only addressed how it could be resolved. Better candidates used well-structured approaches to discussing appropriate methods to address the conflict.

### **Task 3**

This task asked the candidate to discuss the challenges of applying target costing to the design of a new lens. Better scripts recognised that since the new lens is to be a high-quality product it may not be particularly price sensitive. They also identified the difficulties which may arise from the work being carried out in a factory which currently has no experience of working at this level of precision. Weaker scripts provided very general discussions of target costing and did not address the specific issues arising from the lens production. Again, some candidates explained what target costing is and did not have time to develop their answers further.

They were then asked the implications for the Montel Group's competitive advantage of creating this lens and how much authority over cost and quality should be given to the design team responsible for its development. A good response would recognise the balanced argument that the lens could penetrate new markets or could merely displace demand for existing models. Some candidates listed general aspects of the Montel business which gave competitive advantage rather than focussing on the new lens.

Better candidates recognised that although the technical experts needed enough freedom to design an excellent product, it would always be possible to make the lens better by spending more and the product must also be commercially viable. Weaker candidates tended to recommend that the technical experts be given complete control.

### **Task 4**

This final task began by asking candidates how the new project would affect the key ratios used to interpret Montel's financial statements. There were some very good responses to this, with candidates correctly recognising the impact on both profit and capital employed. Better candidates discussed the way in which a ratio might change rather than just saying it would be affected.

Finally, they were asked what operational risks are associated with the project and whether they would be mitigated by appointing an engineer from Gless to act as project manager. Better candidates produced a realistic discussion of the operational risks and also recognised that whilst the engineer might have relevant experience the local staff might view the appointment of a Gless employee as an intrusion. Weaker candidates tended to identify risks but then state that all would be effectively mitigated by the engineer's appointment.

**Variant 3**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Syllabus lead learning outcome:</b>
<b>Task 1</b>	Apply Big Data analytics to gathering useful information on the uses of phone cameras.	Technical skills	P2 D2b - discuss the risks associated with the collection and use of information.
	Discuss the competitive advantage that might be obtained from collaboration on a new product.	People skills	E2 A1c - explain the approaches to achieving sustainable competitive advantage
<b>Task 2</b>	Advise on the use of life-cycle costing.	Business skills	P2 A1c - discuss techniques for enhancing long-term profits
	Identify the impact of a new arrangement for accounting ratios.	People skills	F2 C2a - discuss the limitations of ratio analysis based on financial statements ...
<b>Task 3</b>	Identify the problems associated with measuring the performance of the design engineering department and of individual design engineers.	Leadership skills and People skills	P2 B2a - prepare performance reports for the evaluation of projected and actual performance and E2 B1b - discuss HRM approaches for managing and controlling individual's performance
	Advise on the accounting issues associated with issuing stock options.	Technical skills	F2 B1c - discuss the provisions of relevant international accounting standards in respect of the recognition and measurement of revenue, leases, financial instruments, share-based payments and deferred taxation
<b>Task 4</b>	Discuss the relevance of internal rate of return when selecting between mutually exclusive projects.	Technical skills	P2 C1c - evaluate investment appraisal techniques and explain their results
	Recommend negotiating strategy for dealing with a customer.	Business skills	E2(C2a - discuss the roles of communication )

## Comments on performance

### Task 1

The first part of this task asked candidates how big data analytics might be used to determine how consumers use their phone cameras at present. Answers to this requirement varied enormously in quality, with some excellent explanations that demonstrated both an understanding of what big data analytics are and how they can be used, but also reflected an understanding of what a camera manufacturer would wish to know. It was not always clear whether such candidates' were drawing upon research conducted prior to the exam or were simply applying their common sense to the scenario. Either way, there were many suggestions that would have had value to the management of Montel. Weaker answers tended to explain the nature of big data analytics in very general terms without any significant application to the scenario. A significant minority of candidates did not even consider the use of big data analytics, as specified in the question. Those answers effectively ignored the requirement by offering (generally vague) proposals to conduct market research.

The second part of the requirement asked how Montel should establish whether its collaboration with the phone manufacturer would impact on its competitive advantage. Candidates generally focussed on the requirement and offered realistic arguments concerning competitive advantage. A wide range of suggestions were put forward, which was acceptable in this case because there is not a single correct answer. Candidates offered arguments that competitive advantage might be gained or lost and some looked at both arguments while others tended to focus on just one. As always, scripts were marked on their merits.

### Task 2

The first requirement dealt with the use of life-cycle costing to maximise profits from the new camera that will be incorporated into the new smartphone camera. Some candidates appeared to have little or no understanding of lifecycle costing and wrote in general terms about making a profit from the camera. Better answers applied lifecycle costing to the scenario, but gave equal prominence to each stage of the lifecycle, despite having highlighted the importance of the design stage at the start of the answer. Stronger answers explained why the design stage was particularly important and focussed more on that. Marks were awarded for any and all relevant arguments and so marks were not restricted when candidates chose not to concentrate on product design. Those candidate did, however, constrain themselves in the sense that they left potentially fruitful arguments out of their answers.

The second requirement asked about the impact of a business decision on accounting ratios. Answers were frequently poor, with very few candidates addressing the manner in which the new line of business described in the scenario would affect accounting ratios. Some candidates simply listed ratios and stated that they would be affected adversely, with no further explanation. There were some good answers that explained how the financial statements would have been affected and how those impacts would have been reflected in the ratios.

### **Task 3**

The first requirement was effectively split into two, the first asking about the performance evaluation of the Design Engineering department and the second asking about the evaluation of its individual engineers. Weaker answers made no attempt to separate the performance evaluation issues for the Department, as opposed to the individuals. Stronger answers addressed the two issues separately. Most candidates appeared to understand the basic issue that these engineers are engaged in professional activities and that their work does not necessarily lend itself to the production of quantifiable results. The distinction between weaker and stronger answers tended to amount to the depth of the analysis of the problems of evaluation.

The second requirement was generally answered badly, which was disappointing because the answers required little adaptation of the syllabus content to the requirement. Many candidates appeared to have very little understanding of the accounting issues associated with stock options. Some seemed unsure of what an option actually was. Answers were frequently brief and amounted to a statement that valuation is a problem, which was implied by the wording of the question. Those candidates who had some understanding of the accounting issues raised by options tended to score well.

### **Task 4**

The first requirement asked about the extent to which the internal rate of return criterion might optimise the choice between two mutually exclusive investment opportunities. Answers to this requirement were generally good. Some candidates interpreted the requirement quite liberally by focussing more on the limitations of quantitative measures and the possibility that forecasts could prove inaccurate. Candidates who developed such arguments in a manner that reflected the scenario and the requirement scored well.

The second requirement asked candidates to recommend an approach to negotiating a minimum order from a potential buyer. The approach taken to this requirement varied, but the better answers focussed on the need to understand the buyer's position as well as that of Montel. Most candidates produced reasonably full and logical arguments in response to this requirement.

**Variant 4**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Syllabus lead learning outcome:</b>
<b>Task 1</b>	Discuss profitability of new distribution arrangement	Business skills	P2 A1a - evaluate activity-based management
	Recommend accounting treatment	Technical skills	F2 B1c - discuss the provisions of ...
<b>Task 2</b>	Discuss product bundling strategies	Technical skills	P2 C2a - discuss pricing strategies and their consequences
	Discuss implications of consignment inventory proposal	Business skills	F2 C1b - evaluate the financial performance ... and E2(A1a - discuss the concept of strategy ...
<b>Task 3</b>	Discuss operational risks	People skills	P2 D2a - discuss risk management
	Discuss change management	Leadership skills	E2 D1b - recommend techniques to manage resistance to change
<b>Task 4</b>	Discuss management by objectives and the benefits associated with integration between sales and finance	Leadership skills and People skills	E2 B2a - discuss behavioural aspects of management control and E2 C1b - discuss the effectiveness of handling relationships between the finance function and other parts of the organisation
	Discuss budgetary control and cost of equity	Technical skills	P2 B2c - discuss the criticisms and behavioural aspects of budgeting in responsibility centres and F2 A2a - calculate the cost of equity for an incorporated entity using the dividend valuation model

## Comments on performance

### Task 1

In the first requirement, candidates didn't seem to understand what was required. So many candidates couldn't produce an appropriate answer. Weaker scripts just gave the benefits of the new distribution arrangement which were not asked for.

Some candidates did list problems/risks from the new arrangement enabling credit to be given but they were not always linked to profitability. Only the better candidates would provide risks such as returned stock being damaged and go on to discuss write offs affecting profitability.

Better candidates did focus on profitability and realised that additional costs would be needed and could come up with additional costs such as distribution and administration.

In the second requirement, some candidates demonstrated excellent. The best approach was to set out the technical details of the standard and then apply each part to Montel using the scenario.

Many candidates didn't cite the technical knowledge, or only mentioned risk and rewards, but managed to pick out relevant details from the scenario that proved that Montel should account for the consignment inventory, so usually a pass mark could be achieved.

Quite a few candidates moved from revenue recognition to IAS2 wanting to discuss holding inventories at the lower of cost and NRV (especially for returns) which was fine but there were candidates who only discussed IAS2 and not the consignment arrangement so their marks were limited. This is yet another example of poor understanding of financial reporting and this should be addressed before future attempts at the case study.

### Task 2

In the first requirement candidates were reasonably good at discussing advantages and disadvantages of the product bundling strategies, with most managing to achieve a pass standard.

Where candidates achieved lower marks was because they didn't discuss the two strategies separately they merged the answer into one set of advantages and disadvantages. This often meant that the bundling strategy with the camera bag was often under-represented in the answer or missed out altogether.

For the second requirement, candidates' answers to the impact on accounting ratios was mixed. There were some excellent answers where candidates discussed a broad range of ratios including inventory turnover, current ratio, quick ratio, ROCE, margins.

In addition, some candidates didn't know what the effect on the ratios would be so just stated comments such as "there would be an impact on the current ratio" without stating the impact which showed poor knowledge. More discussion was required to gain a high mark.

### Task 3

In the first requirement, candidates' were reasonably good at identifying risks and providing suitable responses. Many candidates used the scenario well to pick out problems such as distribution, damage/theft at retailers, retailers not promoting the inventory, retailers not having suitable knowledge and damaging their brand etc.

Most candidates also cited the TARA framework and used this in their response.

Better candidates also set the answers out well by providing a risk then a solution together to ensure each risk was addressed with weaker candidates doing the risks first then the responses where often not all the risks would be addressed.

Most candidates used the scenario well and realised that the budgets for the sales managers had gone up and that this was due to the short-term promotions which wouldn't last so they discussed that this would be demotivating and that they had probably not been involved in setting the budgets as they had never been achieved and were getting harder. Candidates also discussed the new sales arrangement with the retailers which may affect the sales managers' positions and possible redundancies.

To overcome the resistance many candidates gave the change management theory and used the headings "education and communication" to provide a good explanation of what could be done. Most candidates showed good knowledge here. Some candidates also chose to discuss Lewin's three step model here which gained marks if it was discussed correctly.

Weaker candidates just provided less detail so didn't include all of the change management theory discussion just focussing on communication and participation.

#### Task 4

Management by objectives proved to be challenging for candidates with many showing a lack of knowledge and application in this part. Many answers only said that the objectives could be aligned to the overall company strategy.

Better answers went on to discuss how the targets needed to be SMART, and how progress could be monitored. Candidates then tried to move the discussion to KPIs and spent too much time discussing these.

Few candidates linked the discussion to the scenario.

Discussions on a greater integration between sales and finance were also quite poor. Most answers were very short here and discussions just tended to be on the sort of financial data that finance could provide to sales. This was usually which buyers/products were the most profitable so that sales could focus their efforts there.

Some candidates thought that the sales and finance departments were going to be merged so discussed redundancies, leaking of confidential data and the employees not having the relevant knowledge so having to be trained which did not answer the question.

In the second part candidates' didn't know how to answer the question on traditional budgetary control so they discussed how the budget was a top down budget (this was not mentioned in the scenario) and inflexible so to improve it needed to be bottom up and should be a rolling budget that could react to changes. In other words, candidates tried to make up a current budgeting scenario to then criticise it and suggest alternatives. Discussing alternative budgeting approaches in detail was not required.

Only the better candidates tried to relate this to the current scenario regarding the dysfunctional behaviour and realised that some sort of budgetary control was needed for example they tried to give a balanced discussion giving the good and bad points of the traditional budgetary control.

Cost of equity answers were very poor with many candidates not attempting it or barely referencing it, showing a lack of knowledge. This was disappointing as it comes up frequently in the case study exams and is another area for revision before any future attempt.

Some candidates gave a definition of cost of equity and discussed how they would expect profitability to improve with a more commercially-driven approach, but not enough expanded the answer to include a discussion of risk, or they only gave the positive side of profitability increasing.



**Variant 5**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Syllabus lead learning outcome:</b>
<b>Task 1</b>	Discuss lifecycle costing	Business skills	P2 A1c - discuss techniques for enhancing long-term profits
	Discuss interpretation of segmental information	Leadership skills	F2 C2a - discuss the limitations of ratio analysis ...
<b>Task 2</b>	Discuss competitive advantage	Technical skills	E2 A1c - explain the approaches to achieving sustainable competitive advantage
	Discuss pricing strategy	People skills	P2 C2a - discuss pricing strategies and their consequences
<b>Task 3</b>	Discuss application of sensitivity analysis	Technical skills	P2 D1a - apply sensitivity analysis);
	Discuss negotiation strategy	Business skills	E2 C2a - discuss the roles of communication, negotiation, influence and persuasion in the management process
<b>Task 4</b>	Discuss benchmarking	Technical skills	P2 B2a - prepare performance reports ...
	Discuss issue of bonds	People skills and leadership skills	F2 A1b - discuss the markets for and methods of raising long term finance

## Comments on performance

### Task 1

The first part of this task asked candidates to explain how life cycle costing might be used to maximise profits from our continuing commitment to producing CSC cameras.

Many candidates appeared to have confused this with general life cycle management and talked in terms of product maturity and relevant pricing strategies associated with Introduction, growth, maturity and decline rather than any element of costing considerations associated with those similar stages. Better answers applied lifecycle costing to the scenario, but very few focused on the design and introduction stage as crucial, instead of giving equal prominence to each stage of the lifecycle. These candidates still confused costing with pricing and it was only the better candidates who explained why the design stage was particularly important and focussed more on that.

The second part of the requirement asked the candidates to discuss the difficulties faced by Montel's shareholders in interpreting this segmental information and explain whether it would be helpful and ethical for Montel to release its own favourable interpretation of the results, in order to reassure the shareholders.

Most candidates found that the segmental analysis provided was very much one dimensional and that there needs to be more context given as to the indications provided by the figures and trends. The degree to which they were able to exemplify their arguments demonstrating increasing depth of understanding of some of the confusions which can arise allowed them to increase their score. Further explanation would enable better appreciation of the scenario and the better candidates recognising that the more detail given, the more likely it is to divulge relevant competitor information.

However, when trying to explain the ethical position that needs to be taken, many candidates struggled to find anything more than basic integrity as the guidance factor, seemingly not picking up on the implication of "Favourable" and indication of possible bias. Better candidates brought in objectivity with professional conduct and due-care occasionally being discussed.

### Task 2

This task started with a request to consider an OEM deal whereby, Montel would pick up a new range of Compact Cameras designed and produced by its competitor LEMM and allow these cameras to be rebadged and sold under the Montel brand. To what extent would this offer a source of competitive advantage to Montel.

This provoked a very wide range of responses from candidates both positive and negative points being raised and in some cases very reasonably argued. Marks were awarded for all reasonable responses, with more being awarded where balanced views were well supported showing both sides were considered and understood. Briefer answers were also plentiful often giving little recognition of the factors involved, or indeed applying them in the scenario.

Task two progressed to ask the candidates' views on the pricing strategy that should be adopted for this new camera, explaining with reasons what would be the best pricing strategy from Montel's perspective. On the whole this was very well answered with most candidates demonstrating good knowledge of the various pricing models available; premium, penetration, scalping, bundling, etc. Better candidates not only demonstrated the theory but were able to give variants in the model to be used according to the market position and buyers reaction.

### **Task 3**

The first requirement asks candidates to discuss the credibility of a set of simulations with deviations and range of outcomes.

Candidates generally struggled with this objective and only the best gave full answers detailing both the need to understand assumptions and the potential accuracy of the estimates provided along with other market factors needing to be taken into account. Many spotted that the standard deviation and thus the risk was higher with the royalty agreement but rather fewer recognised the sensitivity to market forces within the model. Some candidates strayed into a straightforward discussion on the relative merit of taking up the Lemm offer. Marks were awarded in limited quantity for any responses off the question topic but which never the less gave recognition of the different risks and other factors at play.

The second requirement asks candidates how best to use the results of the simulation analysis to assist in negotiations with Lemm over royalty price. As noted above, most candidates recognised that the Lemm model carried more risk and were able to argue to some degree that some advantage should be gained from highlighting this. Better candidates went further to consider the movement of risk on each party and to use that as a lever with which to negotiate.

Candidates struggled to expand their arguments on price negotiation based on these models.

### **Task 4**

The first part of this task requires candidates to explain how benchmarking might be used to protect Montel's reputation.

Candidates fared reasonably well on the benchmarking aspects with good candidates highlighting several risk areas across manufacture, quality, distribution, reputation and after sales service...including the need to follow through on any adverse aspects

discovered. Poorer candidates took increasingly narrower views and mostly failed to follow through on results and actions to remedy early problem symptoms.

The second part goes on to request the candidates to explain the implications of Montel issuing bonds to raise finance and to explain the role of underwriters in managing the issue.

Generally, there were only a limited number of candidates who answered this well. Most displayed a rudimentary knowledge of the use of bonds in financing, but very few were able to explain their open trade and changing market values. Again, the role of the underwriter was described with varying accuracy and depth with again few demonstrating a good knowledge of the subject matter. Whether this was because it came as the last part of the paper or candidates simply had little to say on the subject, many answers to this element were extremely brief.